Studies in
Rural Finance

Economics and Sociology
Occasional Paper No. 1709

U.S. FUNDED RURAL FINANCE ACTIVITIES IN LATIN AMERICA AND THE CARIBBEAN, 1942-1990: A New Strategy for the 1990s

by

Dale W Adams
Professor of Agricultural Economics

(Revised)
June 29, 1990

Agricultural Finance Program
Department of Agricultural Economics
and
Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210-1099

Abstract

This study compares the characteristics of A.I.D.'s rural finance projects in Latin America and the Caribbean with new policy guidelines issued in 1988. Information from A.I.D./Washington files, and three case studies in Bolivia, Guatemala, and Honduras make up the bulk of the report. Recent rural finance activities of the Inter-American Development Bank and the World Bank are also surveyed. Recommendations are that A.I.D. do: larger rural finance projects, do more systematic financial sector studies, do less loan targeting, place more emphasis on deposit mobilization, engage in long-term policy dialogue on finance policies, and add a person to the LA/DR staff who might focus on rural finance.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The purposes of this study are the following: (1) to review the inventory of documents in Washington on recent rural finance projects funded by A.I.D. (2) To compare the design of these projects with A.I.D.'s policy guidelines on financial market development issued in 1988. (3) To do case studies on A.I.D. funded rural finance activities in Bolivia, Guatemala, and Honduras. (4) To analyze factors that affect the access of the rural poor to formal financial services. (5) To interview present and former A.I.D. employees about their experience with rural finance projects in Latin America. And (6) to propose a strategy for LAC\RD\RD to use during the 1990s in addressing rural financial market problems.

Rural finance programs have been an important part of U.S. bilateral assistance efforts in Latin America for many decades. Since the early 1970s A.I.D. has funded more than 180 development programs there--worth about $1.7 billion--with rural finance components. The World Bank and the Inter-American Bank have also directed large amounts of money to agricultural credit efforts in the region. A number of the donors' credit programs, however, have yielded less than anticipated results. Excessive loan defaults, few deposits mobilized, high transaction costs, political intrusions into lending, concentration of financial services, dependence on donor funding, insolvent financial institutions, capital erosion due to inflation, and transitory financial services have often tarnished the results of these programs.

While a number of A.I.D. assisted countries in Latin America have expanded substainability their financial infrastructure in rural areas since World War II, most of the institutions involved are fragile and many poor rural people still lack access to formal financial services. Both of these problems are closely related to policies that repress financial markets and to the high costs of providing formal financial services in rural areas. Reforms in policies and innovations that reduce transaction costs in financial markets are two major ways to resolve these problems.

A.I.D.'s Policy Statement on Financial Market Development issued in 1988 evolved out of extensive research and policy discussions sponsored by the Agency since the mid-1960s. This statement summarized the "new thinking" about financial markets and also prescribes substantial changes in the design of A.I.D.'s rural finance projects. The seven most important changes mentioned are the following: (1) Use financial markets to allocated resources more efficiently, instead of handling targeted loans or income transfers. (2) Governments should be encouraged to liberalize their financial market policies. This includes adopting market rates of interest and removing taxes and regulations that repress financial markets. (3) Deposit mobilization should be promoted. (4) A.I.D. should assist financial institutions to become more efficient and sustainable. (5) The development of equity markets should be encouraged. (6) Governments should be encouraged to implement macro economic policies--especially those affecting rural areas--to provide a favorable economic environment for financial markets. And, (7) A.I.D. missions should prepare financial market assessments before starting projects that have a major impact on financial markets. (The Inter-American Development Bank and the World Bank are discussing similar policy changes.)

It is not surprising that A.I.D.'s current activities in rural finance are not in full compliance with this new policy directive. Adjustments in financial market policies are difficult and time consuming to effect.

Accomplishments: A.I.D. has done best in encouraging liberalization of financial market policies. While some interest rates are still too low and inflexible in Latin America, a number of countries have adopted relatively flexible interest rate policies that are related to market forces. The Agency has also largely backed away from using financial markets to handle income transfers, has placed more emphasis on viable financial institutions, and has sponsored a sizeable amount of research in a handful of countries that is useful in policy dialogue and in financial market assessments. To its credit, the Agency has also been innovative in applying the new thinking about rural finance in pilot projects, especially in the Dominican Republic.

Shortcomings: A.I.D has made less progress in stimulating deposit mobilization, in developing equity markets, in encouraging macro economic policies more conducive to vigorous financial markets, and in moving away from targeted lending. The extremely large number of A.I.D. projects in Latin America with targeted credit components are troublesome to manage, yield results that are suspect, and cause substantial wear and tear on financial markets.

A RECOMMENDED STRATEGY FOR THE 1990S

1. A.I.D. MIGHT ADD A PERSON TO ITS WASHINGTON STAFF AS SOON AS POSSIBLE TO COORDINATE AND BACKSTOP MISSION PROGRAMS IN RURAL FINANCE

In part, A.I.D. has difficulty implementing in Latin America the new policy directives on financial markets due to the lack of Washington back stopping. A person might be added to the LAC staff who is a specialist in rural financial markets and who can help missions adopt the new strategy outlined in A.I.D.'s 1988 policy statement. The job description for this position might include the following activities:

i. Assist missions in doing financial sector assessments.

ii. Assist missions in developing rural financial sector projects that stem from the above-mentioned assessments.

iii. Be a liaison with other development agencies in Washington to assure that donors are not at cross purposes in rural financial markets activities in Latin America.

iv. Be a clearing house for new publications and research on rural finance that might be of interest to missions.

v. Conduct regional and country seminars to expand knowledge of mission staff and policy makers about new views on rural finance.

vi. Take the lead in arranging short-course training programs for A.I.D. staff, local officials, and potential consultants on the most difficult aspects of the new views about rural finance.

vii. Assist missions in doing more useful evaluations of rural finance projects and helping them to contact qualified consultants

viii. Be a resource person who can explain to Congress how the new approaches to using rural financial markets in Latin America will better achieve A.I.D.'s Congressional Mandates.

2. A.I.D. MIGHT DO LESS TARGETED LENDING

Three case studies show that A.I.D. continues to do mostly loan targeting in its rural finance activities, largely in attempts to achieve Congressional Mandates. Research the past several decades has shown, however, that loan targeting is usually ineffective in providing targeted groups with sustainable financial services and often damages the performance of rural financial markets by raising transaction costs.

3. A.I.D. MIGHT PREPARE SECTOR STUDIES OF RURAL FINANCIAL MARKETS, INCLUDING ANALYSES OF INFORMAL FINANCE, BEFORE FUNDING RURAL FINANCE PROJECTS

A.I.D. might give rural financial markets physical examinations--understand how they operate and why--before developing related projects. These financial sector assessments might have four components. First, they could include in-depth analyses of informal finance to determine the types of services provided therein, the financial technologies used in these informal markets, and the contact points between formal and informal finance. Second, the structure and performance of the formal financial system should be documented. This includes assembling aggregate and institution-specific information on number of clients served through both loans and deposits and whether this number is static, increasing, or declining. Detailed information on loan recovery performance, deposit mobilization performance, and financial status of formal institutions should also be collected. Third, the reasons for faulty performance should be diagnosed. Fourth, prescriptions for ameliorating problems and suggestions on the role A.I.D might play in this could be included.

4. A.I.D. MIGHT FORM SECTOR PROJECTS DIRECTED AT IMPROVING THE OVERALL PERFORMANCE OF RURAL FINANCIAL MARKETS

Many of the problems in rural finance result from incorrect policies, not the lack of loanable funds, technical knowledge, or formal financial institutions. Policy problems occur in interest rates, reserve requirements, the way financial markets are used, charges on rediscount lines, information requirements, supervision and regulation of financial institutions, sources of loanable funds, and macro economic decisions. A.I.D. might have more influence on policies if its assistance were bundled in financial sector loans. These loans might focus on improving the overall performance of rural financial markets.

Regarding Congressional mandates, A.I.D. might argue that an efficient, expanding, and sustainable rural financial market will reach more of the rural poor than has occurred through a variety of targeted credit programs in the past. If the new views are fully applied, large numbers of the rural poor will have access to attractive deposit services for the first time, some of them will also have access to more formal loans, and many of the rural poor will receive enhanced services through informal finance, that, in turn, has improved access to sustainable formal finance.

5. A.I.D. MIGHT EMPHASIZE DEPOSIT MOBILIZATION IN ITS RURAL FINANCE PROGRAMS

Most rural financial systems that operate efficiently and equitably aggressively mobilize deposits. Recent research on the Agricultural Bank in the Dominican Republic, and on credit unions in Honduras and in the Dominican Republic show these organizations operate more efficiently and equitably when deposit mobilization is stressed. A.I.D. has been creative in funding several small technical assistance projects in Latin America that demonstrated the feasibility of mobilizing substantial amounts of voluntary deposits in rural areas. It might extend these programs into other countries as a way of demonstrating the opportunities to mobilize more deposits.

6. A.I.D. MIGHT ENGAGE IN SYSTEMATIC, LONG-TERM DIALOGUE WITH LOCAL POLICY AND OPINION MAKERS OVER CONTROVERSIAL ISSUES IN RURAL FINANCE

Many of the problems in financial markets in Latin America are caused by incorrect policies and these policies have been difficult to influence through the project approaches traditionally used by A.I.D. Virtually all of these policies are linked to other critical economic considerations. Lack of clear understanding about the adverse effects of these policies increases the difficulty of encouraging policy changes. Most of the policy issues that ought to be front and center in A.I.D.'s policy dialogues are outlined in its 1988 policy statement on financial markets. Incorrect policies are more likely to be changed if A.I.D. designs rural finance projects so they include sustained, long-term policy dialogue buttressed by some policy oriented research.

U.S. FUNDED RURAL FINANCE ACTIVITIES IN LATIN AMERICA AND THE CARIBBEAN, 1942-1990: A NEW STRATEGY FOR THE 1990S

by

Dale W Adams[1]

INTRODUCTION

The following discussion reviews the rural finance activities of the Agency for International Development's (A.I.D.) in Latin America since the early 1940s, with particular emphasis on the period since the early 1970s.[2] This includes doing an inventory of A.I.D.'s rural finance projects, reviewing evaluations of these projects, and briefly summarizing the efforts of the World Bank and the Inter-American Development Bank in this area (objective number one in the scope of work). Another objective of the study is to chronicle the extent to which A.I.D.'s projects conform to the new thinking on rural finance as summarized in a recent A.I.D. Policy Paper (objectives 3, 6 and 7 in the scope of work). This includes identifying and analyzing cross-country issues affecting clientele groups of particular interest to A.I.D. (objective number 2 in the scope of work).

In addition to reviewing A.I.D. documents in Washington, case studies are also presented that describe rural finance activities in three countries (objective number 4 in the scope of work). Additional background information was provided by informal interviews with a number of current and retired A.I.D. employees who have had experience in rural finance (objective number 5 in the scope of work). The final objective of the study is to recommend a strategy for the 1990s--a first draft of a scope of work--for LAC/DR/RD that would lead to practices in accord with A.I.D.'s 1988 policy statement (objective number 8 in the scope of work).[3]

---

[1]Thomas Dickey, Jerry Ladman, Michael Saperstein, and Robert Vogel helped collect the information presented in this report. Rafael Rosario and Mark Bidus also helped with data collection and analysis.

[2]In the remainder of the discussion I use the term 'Latin America' to mean all of the countries in the Americas south of the U.S.

[3]Agency for International Development, Bureau for Program and Policy Coordination, "A.I.D. Policy Paper: Financial Markets Development," Agency for International Development, Washington D. C., August, 1988.

To meet the objectives outlined in the scope of work for this study, the report is organized into seven sections plus a Bibliography and two Appendices, one containing three country case studies and the other presenting brief descriptions of World Bank and Inter-American Development Bank (IDB) activities in rural finance. As background for the study, the first section provides historical background on U.S. involvement in rural finance activities in Latin America. The second section presents details on the magnitude of A.I.D.'s involvement in rural finance since the early 1970s and also outlines the new views on rural finance summarized in A.I.D.'s recent policy paper. This section draws heavily on project information and evaluations available in Washington, on interviews with A.I.D. employees, and on three country case studies (Bolivia, Guatemala, and Honduras). The third section critiques evaluations done on A.I.D.'s rural finance projects and also makes suggestions on how to strengthen evaluations of rural finance projects. The fourth section present a summary of information from the three country case studies. The fifth section outlines the major lessons learned. The sixth section compares A.I.D.'s rural finance efforts across various countries in Latin America with recent A.I.D. policy guidelines for financial market activities. The seventh and final section provides suggestions on a new strategy that A.I.D. might use during the 1990s in Latin America to address problems of rural finance. This strategy is consistent with A.I.D.'s 1988 policy statement on financial market projects and is also consistent with new policies that are emerging in the World Bank and in the Inter-American Development Bank.

HISTORICAL BACKGROUND

The involvement of U.S. Agencies in rural finance in Latin America goes back to the early 1940s. I divide these activities into four periods: the 1940s, the 1950s and 1960s, the 1970s, and the 1980s.

The 1940s

The earliest rural credit program receiving U.S. support in Latin America was in Paraguay in 1942.[4] Rice reports a jointly funded U.S./Paraguay program administered by the Cooperative Service for Agriculture (STICA) that included a major rural credit component (p.75). Walter Crawford, previously an employee of the Farm Security

---

[4]The U.S. Department of Agriculture and the Institute for Inter-American Affairs (IIAA) promoted rural development in 11 Latin American countries during World War II. Many of these efforts were aimed at stimulating the production of a commodity, such as rubber, that was vital in the war effort. In other cases the programs were aimed at producing more food. After the War, some of these programs evolved into various Servicios that were supported by U.S. agencies (Rice, 1971. p. 53-55). Aside from Paraguay, agricultural credit initially played a minor role in these efforts, but funding for agricultural loans became more important as the Servicios developed. Many of these program evolved, with substantial U.S. assistance, into relatively large supervised credit programs during the 1950s and 1960s.

Administration, has the distinction of being the first U.S. technician to work on rural finance in Latin America. A few years later Crawford was employed by the American International Association for Economic and Social Development (AIA) to initiate several agricultural credit programs in Brazil and Venezuela [Wharton, 1950 and 1969].[5] These programs linked extension efforts with supervised credit, and the technicians participating in AIA's programs assisted farmers in obtaining loans along with giving them technical assistance. The optimism that surrounded these efforts is shown in a 1952 statement by an AIA employee:

> It may be another generation before either Brazil or Venezuela has a thoroughly adequate farm credit system. However, the American International Association is convinced that it is demonstrating a sound a workable program that can be safely recommended to other agencies engaged in technical assistance activities. [James G. Maddox, as reported in Bauer, Volume 1, p. 221.]

Programs in the U.S. in 1930s strongly influenced AIA and A.I.D. credit efforts. After World War II, numerous policy makers and administrators from Latin America studied the U.S. farm credit system. Many of the U.S. credit experts in Latin America were former employees of either the Farmers' Home Administration (FmHA) or the cooperative farm credit system. Because many of the credit programs initiated in Latin America received U.S. support, the U.S. experience in agricultural credit had a strong influence on these efforts.

Policies: Aside from the emphasis on institution building, policy makers and donors attempted to use supervised loans with low interest rates to substitute for informal lending, to stimulate use of new farm technologies, and to encourage production. The limited presence of formal lenders in rural areas meant that the impact of these efforts was generally small and several of the credit projects ended up being pilot efforts. In some cases supervised credit programs were later folded into specialized agricultural banks.

---

[5]The AIA was a private non-profit corporation funded largely by Nelson Rockefeller and his brothers. It was organized in July, 1946 and initially focused its efforts in Brazil and Venezuela. An important objectives of AIA was improvement of agricultural credit systems in participating countries by combining farm planning, education assistance to farmers through extension, and sound bank loans. No AIA funds were lent and all lending operations were handled by an established banking agency. For additional details on AIA's program see James G. Maddox, "Credit Experience in South America," in Bauer, Volume 1, pp. 214-221.

Research: Because the scope of formal rural financial activities was limited and the capacity for undertaking social science research was even less well developed, there was little research done on rural finance in Latin America prior to the 1950s. Most of the discussion of agricultural credit that made its way into the literature came from Asia. Far East views about agricultural credit dominated the thinking about rural finance for several decades after World War II, mostly because it was the only research available.

The 1950s and 1960s

Beginning in the early 1950s predecessor agencies of A.I.D. funded several waves of rural credit programs.[6] Continuing earlier emphasis, supervised credit was stressed in a number of countries with most of these programs being attached to the agricultural Servicios sponsored by A.I.D. Reservations about informal lenders, emphasis on low rates of interest, using loans to help the poor or to promote targeted activities, advocacy of credit cooperatives, and replication of the U.S. farm credit system were the conceptual foundations for these activities. These views dominated the International Conference on Agricultural and Cooperative Credit held in Berkeley, California in 1952, sponsored by the U.S. bilateral aid agency, as well as a United Nations seminar on agricultural credit held at about the same time in Guatemala (Bauer, Davis, United Nations). Periodic regional seminars in Latin America largely funded by A.I.D. in 1957 through 1966, continued to focus on these concerns. As a result, donor agencies, especially, the Inter-American Development Bank and A.I.D. began to place heavy emphasis on developing and enlarging agricultural credit programs.

A.I.D. was particularly aggressive in promoting new credit institutions. From 1950 to the early 1970s, it spent over $700 million--much of this in Latin America--in various types of agricultural credit programs (Rice, 1973, p.2). This included placing a large number of credit advisors, largely for institution building purposes, in virtually all of the 17 countries in Latin America where A.I.D. was working. Most of these advisors attempted to implant supervised credit programs. Later, various forms of cooperative credit institutions were also supported in a few countries. Still later additional emphasis was placed on developing credit unions. In the mid-1960s A.I.D. also provided funding through the regional credit union office, CUNA--a private cooperative organization--to encourage credit unions to offer directed credit programs in various countries aimed at small farmers, Ecuador being a notable example.

The IDB began the bulk of its agricultural credit programs in the 1960s and their efforts concentrated on development banks. While a few of these efforts were targeted at a particular economic activity, most of IDB's funds augmented the amounts available for lending to farmers in general. Only later did the World Bank become heavily involved in

---

[6]In the remainder of the discussion, I use the term 'A.I.D.' to include A.I.D. and predecessor agencies.

agricultural credit programs. This included making funds available for intermediate- and long-term loans for farm investments, mainly through government owned banks, especially in Brazil and Mexico. Operators of medium- and large-sized farms received most of these loans. The Bank also included major credit components in other agricultural projects. During this time it became popular among donors to speak of credit as being part of a package of inputs needed to stimulate agricultural production.

During the 1950s and 1960s the assumptions behind donor's rural finance effort were: (1) most farmers in Latin America needed loans and supervision in order to adopt new technologies; (2) informal sources of loans were inadequate and too expensive; (3) most farmers were too poor to invest their own funds in new technologies, let alone to make deposits; (4) there were major shortages of reasonably priced loans for farmers in most countries; (5) imperfections in rural financial markets resulted in few medium- and long-term loans being available for farmers; (6) the financial infrastructure serving rural areas was incomplete, inadequate, exploitative, or incompetent; and (7) commercial bankers were too conservative to make loans to farmers.

<u>Policies</u>: Common government and donor policies during this period included: (1) Creating new institutions to provide loans in rural areas; (2) replacing informal borrowing with formal loans; (3) setting concessionary interest rates on agricultural loans and on rural deposits; (4) increasing the supply of formal agricultural lending through grants or loans directly to development banks, cooperatives, or rural private banks, or indirectly through rediscount lines in central banks; and, (5) tying loans to regional, commodity, target group, or input promotion efforts.

<u>Research</u>: Initially, policy makers were confident that most of the answers to agricultural credit problems could be found in the high income countries and transferred to low income countries. Prominent authorities on agricultural credit in Latin America during this period such as Belshaw, Fernandez y Fernandez, and Rochac rarely reported empirical results in their publications. Despite the increasing interest in the problems of agricultural credit, relatively little research was done on this topic until the mid-1960s. A.I.D. lead in stimulating this research through a centrally funded research contract in 1964. Most subsequent analysis of rural finance and related region-wide policy dialogue has been sponsored by A.I.D.[7] Much of the research done during the latter part of the 1960s on agricultural credit was descriptive, focused on alleged credit impact among borrowers,

---

[7] A.I.D. funded most of the major seminars and conferences during the 1950s on agricultural credit problems in Latin America. The Agency also provided virtually all of the funding for research done on rural finance in Latin America while other donors have allocated very few funds to research on this topic. A.I.D also provided most of the funds to conduct the major policy dialogues on rural finance: the 1972-73 Spring Review of Small Farmer Credit, the 1981 Colloquium on Rural Finance in Washington D.C., and the 1989 Seminar on Informal Finance held in Washington D. C.

described the sources and terms of rural loans, and attempted to document monopoly profits among informal lenders. This research was mostly descriptive, used farm surveys to determine the sources and terms of rural loans, included some analysis of lender procedures, attempted to document credit impact, and touched on informal lending. Most importantly, however, the research began to uncover common problems in many rural finance programs in Latin America.

The 1970s

By the early 1970s it became increasingly apparent that the design of many agricultural credit programs was flawed, even though donors and governments continued to spend large amounts of money on them. The most obvious problems were poor loan recovery, weak lending institutions--some were insolvent--and heavy dependency on outside funding. There was also criticism that too few formal loans were reaching the rural poor. Even with these major problems, most donors and a number of governments continued to rapidly increase the supply of agricultural loans during the 1970s, making credit the main rural development instrument in countries such as Brazil and Mexico. Emphasis on building new financial institutions generally declined.

The continued use of concessionary rediscount lines to fund agricultural credit projects discouraged financial institutions from mobilizing deposits. Sticky interest rate policies often resulted in negative real rates of interest on both loans and deposits leading to loan concentration in the hands of relatively few borrowers, few deposits being mobilized, and financial institutions that could not sustain the purchasing power of their loan portfolios. Extensive loan targeting and the associated reporting requirements also increased transaction costs in financial markets and limited willingness to expand. Also, because many of A.I.D.'s rural credit efforts emerged in small projects, A.I.D. had relatively little influence on major financial and economic policies that strongly influenced the performance of rural financial markets.

In part, the fragmentation of A.I.D's rural credit efforts was caused by a reorientation in its activities in the early 1970s to focus on the poorest of the poor. This resulted in emphasis on poverty, small farmers, women, and small enterprises. Later, additional emphasis was given to promoting the private sector. This resulted in a change in terminology that substantially broadened the focus of analysis from 'agricultural credit' to 'rural finance.' This included increased concern about deposit mobilization and about the overall performance of rural financial markets.

Partly because of this reorientation, A.I.D. became increasingly concerned about the results of its previous efforts to provide loans to small farmers. In response to this concern, A.I.D.'s "Spring Review of Small Farmer Credit" in 1972-73 assembled a large amount of information on agricultural credit programs and also clarified the extent of problems in rural financial markets (see A.I.D. volumes in the Bibliography and Donald's book). The Review showed that most problems, practices, and policies associated with agricultural credit in

Latin America were found in other regions of the world. The most obvious problems were that relatively few poor people received cheap credit, that many of the institutions handling these programs were not sustainable, and that few deposits were being mobilized in rural areas.

Policies: Despite mounting criticism, many policy makers promoted concessionary loans to help agriculture and the rural poor through the 1970s. Rigid interest rate policies, combined with substantial inflation pressures, resulted in negative real rates of interest on most formal agricultural loans in many Latin American countries. Increased use was also made of concessionary rediscount lines in central banks to target funds at priority groups, commodities, inputs, or regions. Extensive use was also made of concessionary loans in attempts to offset the adverse effects of other policies on farmers' decisions, particularly in Brazil's massive credit program. Because of increasingly severe balance-of-payments and foreign debt problems, many governments were eager to acquire more foreign exchange through loans for credit projects.

General economic policies that affected the profitability of farming also left their mark on financial markets. Import substitution strategies often resulted in overvalued exchange rates that effectively taxed agricultural exports and reduced farm incomes, creditworthiness, and savings capacity. It became increasingly apparent that the well being of rural financial markets was inexorably linked to agricultural pricing policies, exchange rate policies, the efficiency of the marketing system and public investments in rural transportation, research, and education.

Research: With the substantial increase in agricultural credit projects, there was also a major increase in associated research and analysis, often tied to these projects. Dozens of studies during the 1970s, for example, attempted to justify credit projects by estimating credit demand, or alleged credit impact among borrowers, and many of these studies were evaluations of A.I.D. funded projects.

Research in Costa Rica and in Brazil was particularly helpful in clarifying the regressive way in which repressed financial markets allocate subsidies (e.g., Adams and Tommy, and Vogel and Gonzalez-Vega).

Because of the pervasiveness of negative real rates of interest for both formal loans and on rural deposits, much of the policy dialogue among researchers, donors, and policy makers centered on interest rate policies. The increasing concern with policies also began to nudge research away from looking at what happens to borrowers, to more concerns about what was happening to financial intermediaries and to the performance of rural financial markets overall.

The 1980s

Problems in rural finance escalated into major crises in the late 1970s and early 1980s. Economic stress in many countries made it more difficult for borrowers to repay their loans and for lenders to find creditworthy borrowers. Burdensome foreign debt reduced the ability of many governments to continue attracting donor funds for agricultural credit projects, and mounting budget deficits also forced governments to reduce their funding for rural finance. The real value of loan portfolios in a number of countries declined due to high transaction costs of lending, negative real rates of interest, government borrowing that squeezed the private sector out of loan markets, and declining loan recoveries.

Many rural credit unions in Latin America were decapitalized during the 1980s (e.g. in Bolivia, the Dominican Republic, and Peru). In other cases large programs, such as the Jamaican Development Bank, collapsed and new banks or programs were formed to replace them. In several countries, including Brazil, sharp declines in the real value of formal agricultural loans--contrary to conventional expectations--caused little or no decrease in agricultural output. In still other cases, such as Bolivia, specialized agricultural banks experienced major contractions in the real value of their loan portfolios and this forced them to reduce farm lending.

Individuals in development circles became disillusioned during the 1980s with the results of past agricultural credit programs. While some donors and governments continued to fund agricultural credit, they did so with waning enthusiasm. This stimulated interest rate reforms and also encouraged several A.I.D. missions to experiment with deposit mobilization.

A.I.D.'s concern with deposit mobilization was prompted by the results of the 1972-73 Spring Review. A.I.D.'s interest was first visibly expressed in a pilot savings mobilization project in Peru in the late 1970s. The results of this project showed that a weak bank and a few floundering credit unions could mobilize substantial amounts of voluntary deposits in rural areas, even when economic conditions in the country were unfriendly. These results encouraged A.I.D. to experiment with rural deposit mobilization in additional countries: Honduras and the Dominican Republic.

Policies: It became more difficult to generalize about the policies and assumptions applied to rural finance during the 1980s. In some countries, interest rate reforms--or lower inflation--raised real rates of interest in rural finance: e.g., Brazil, Bolivia, and Chile. Still other governments continued traditional attempts to use rural finance as income transfer mechanisms--Mexico, Nicaragua, and Peru--while other countries sharply reduced their efforts to continue these transfers or to target agricultural credit:[8] e.g. the Dominican Republic. Policy makers in several countries became resigned to credit programs that mainly served relatively large producers, while others were making concerted efforts to reach small borrowers through rural finance. In part, this reflects diversity in policy makers' perceptions, both in low income countries, and differences in local economic conditions. Some governments were forced to wean rural financial markets from external assistance due to foreign debt and budget problems, while others were not.

A "first draft" of new thinking about rural finance and its contribution to development emerged from the Colloquium on Rural Finance held in Washington D. C. in 1981 (Adams, Graham and Von Pischke). It was sponsored by A.I.D. and the World Bank. Most of the donor employees interested in rural finance, who were located in Washington at the time, attended these meetings. The major policy issues discussed were the case for interest rate reforms and the appropriateness of using rural finance to transfer subsidies through concessionary interest rates and loan defaults. Also discussed were the effectiveness of aiming loans at specific target groups or activities, the impact of non-financial policies on rural finance, and deposit mobilization. Also covered were the merits of viewing informal finance more positively, the provision of financial services to non-farm rural enterprises, and the importance of understanding how various credit projects and policies affect the performance of rural finance.

The policy recommendations that emerged from the Colloquium emphasized major changes in the way rural financial markets were used to support development. This included doing much less loan targeting, placing more emphasis on developing sustainable financial institutions, adopting flexible interest rate policies that resulted in positive real rates of interest on both loans and deposits, less use of concessionary rediscount lines, more emphasis on reducing transaction costs in rural financial markets, and much more emphasis on mobilizing deposits. It was also recommended that much less emphasis be placed on justifying credit projects on the basis of the impact of loans on ultimate borrowers. Instead, it was recommended that more attention be placed on evaluating how credit projects affect the performance of financial intermediaries and the overall performance of rural financial markets. This later recommendation was incorporated into A.I.D.'s 1988 policy paper on financial markets.

The acceptance of the Colloquium's policy recommendations by governments and donors was uneven. A.I.D. attempted to adjust its rural finance efforts so they were more in line with the recommendations of the Colloquium, and went so far as to sponsor pilot

---

[8]Financial markets transfer subsidies in two ways: through allowing loan defaults or through concessionary interest rates. Concessionary interest rates effectively "tax" the providers of funds (governments, donors, or depositors) and "subsidize" borrowers. The subsidies conveyed by concessionary interest rates become larger as negative real rates of increase.

projects on deposit mobilization. In 1988 A.I.D. also issued its policy guidelines for financial market projects that were consistent with the recommendations made in the Colloquium. The Inter-American Development Bank made a few adjustments in its agricultural credit activities in the early 1980s and then made major adjustments in the late 1980s. The World Bank responded ambiguously: The general recommendations were accepted as being consistent with the Bank's long standing policy of encouraging higher rates of interest in rural financial markets, but, ultimately, few changes were made in the Bank's agricultural credit projects during the early 1980s. It was obviously difficult for donors with large amounts of money to lend to adopt new approaches in rural finance that required less, rather than more, donor funds.

In October 1989, A.I.D and The World Bank sponsored a seminar in Washington D.C. that focused on informal finance in low income countries. Participants challenged much of the conventional wisdom about informal finance and reinforced the notion that informal finance generally provides valuable service to many poor people. Some of the participants argued that informal finance was more successful in serving poor rural people than was formal finance, and that careful analysis of the practices in informal finance might lead to insights that would be helpful in making formal finance programs more sustainable.

Research: In the 1980s research on rural finance began to anticipate policy changes and was closely tied to these changes. This work was more diagnostic and prescriptive, and less descriptive than was the case in earlier analysis. Consistent with the conclusions of the 1981 Colloquium, the research focus gradually shifted from borrowers and savers to financial intermediaries. This resulted in less farm-level interviewing and more analysis of the operations of intermediaries and how their performance was affected by government policies. Regarding deposit mobilization, research increasingly focused on measuring the effectiveness of deposit mobilization efforts, instead of trying to measure savings capacities. Particularly in Bolivia, Costa Rica, the Dominican Republic, and Honduras applied research was used as an educational tool to facilitate policy dialogue.

Recent research has also stressed documenting transaction costs in rural finance and their allocation among participants. It has identified reasons for excessive transaction costs, and suggested how to reduce these costs through financial innovations (e.g., Cuevas and Graham). These investigations show that attempts to use rural financial markets to transfer subsidies to borrowers or for loan targeting raises transaction costs and thus weaken the primary, resource-reallocating role of rural financial markets. Researchers also began to argue that the best way to encourage the financial system to extend its services in rural areas to the poor is to reduce the costs of financial intermediation for intermediaries and for their clients. These policy suggestions have been labelled the "New Views" in rural finance and most of them are included in A.I.D.'s 1988 policy statement on financial market development.

Summary of the New Views

A.I.D.'s policy statement stresses seven main points, the sum of which amounts to a major change in the way the Agency deals with financial markets:

1. Financial markets should be used primarily to mobilize and reallocate claims on resources; their role should not be to handle income transfers or directed/targeted loans.

2. Financial market policies should be liberalized. This includes allowing market forces to largely determine interest rates on loans and deposits, increasing interest rates on rediscount lines in central banks so they do not discourage deposit mobilization, enhancing competition among financial intermediaries, and eliminating other policies that distort the operation of financial markets.

3. Financial markets should be encouraged to mobilize more voluntary deposits and to rely less on government and donor funding.

4. A.I.D. projects should develop sustainable financial institutions. This includes helping to reduce their transaction costs, enhancing supervision of financial intermediaries, and streamlining regulation and information requirements

5. A.I.D. should help in the development of equity markets that would allow share capital to replace some long-term debt. Many firms would be better able to manage risk if equity, rather than debt, formed the base of their operations.

6. A.I.D. should also encourage governments to pursue macro economic policies that provide hospitable economic environments for rural financial markets.

7. Finally, A.I.D. should prepare financial market strategy papers before initiating projects that affect financial markets.

While the formal statement of A.I.D.'s policy on financial market development was not issued until the latter part of the 1980s, many of the policy prescriptions in it were understood by a number of A.I.D. employees after the 1973 Spring Review. This understanding was further broadened by subsequent research and the 1981 Colloquium. Thus, it might be expected that A.I.D.'s rural finance efforts should have been influenced somewhat by the new views before the official policy statement was issued.

A.I.D. PROJECTS IN RURAL FINANCE SINCE 1973

It is more difficult now to summarize A.I.D.'s efforts in rural finance than it was when E.B. Rice did it for the period up to 1973. The scope of A.I.D.'s efforts has expanded substantially beyond the agricultural credit programs he surveyed. Credit components can be found embedded in rural projects that have relatively little to do with agricultural credit: e.g., export promotion, women development, environment projects, deposit mobilization, microenterprises, rural housing, disaster relief, and industries that serve agriculture. Also, there are a surprisingly large number of projects with credit components. As can be noted in column 3 of Table 1, there were 181 A.I.D. projects in Latin America with significant rural finance components during the 1973-90 period--far more than we had anticipated when we were making plans for the study. Only a handful of them were strictly for agricultural credit or rural finance. The total value of these projects amounted to about $1.7 billion (Table 1, column 4), four times the nominal amount allocated to agricultural credit in the period prior to 1973.

It was difficult to document the volume of funds involved in projects directed at rural finance activities. As a result, the values in Column 4 of Table 1 should be interpreted as approximations rather than exact figures. This is due to several reasons: (1) Documentation on a few projects was simply not readily available in Washington. In other cases, the project information available in A.I.D.'s Center for Information and Evaluation was incomplete. (2) More importantly, funds for rural finance are usually only one component of larger A.I.D. projects. In some cases the absolute size of this component is not clearly stated in project documents. In other cases, the original amounts committed to rural finance were augmented or reduced as the project evolved. Since our analysis is largely based on original project proposals, we may have missed later changes. (3) Many of the projects analyzed were augmented by additional local currencies (counterpart or P.L. 480 funds) that were partly controlled by A.I.D. The documentation on these funds is spotty and it is impossible to know the extent to which these local funds resulted in additionality or financial substitution.[9] (4) In some countries local currencies may be channelled by A.I.D. to rural finance activities that are not seen in Washington as being part of formal A.I.D. projects.

---

[9]For example, A.I.D. may require a government to commit ten million pesos of counterpart funds to augment the supply of agricultural credit involved in an A.I.D. project. The government, however, may decide to comply with this request through reducing by ten million pesos the amount it would have otherwise put into the agricultural credit system, thus resulting in no additionality.

TABLE 1. U.S. Funded Rural Finance Activities in Latin America and the Caribbean, 1942-1990

Country or Region	1942 - 1972* Technician Years	1942 - 1972* US$ Million	1973 - 1990** No. of Projects	1973 - 1990** US$ Million
LA Regional	-	-	9	77
Belize	-	-	2	6
Bolivia	51	19	17	261
Brazil	38	82	-	-
Caribbean	-	-	11	79
Chile	6	18	5	37
Colombia	27	39	6	43
Costa Rica	18	23	13	95
Dominican Republic	53	21	11	81
Ecuador	22	11	9	63
El Salvador	16	10	12	215
Guatemala	61	23	9	79
Guyana	5	-	0	-
Haiti	5	1	6	35
Honduras	10	7	24	298
Jamaica	-	-	7	62
Mexico	7	40	0	-
Nicaragua	10	11	9	30
Panama	29	3	8	43
Paraguay	20	10	9	25
Peru	15	23	13	199
Uruguay	-	-	1	***
Venezuela	11	10	0	-
Totals	404	351	181	1,728

* E.B. Rice, "History of Agricultural Credit", Evaluation paper No. 8, Program and Policy Coordination Bureau, Agency for International Development, Washington, D.C., June 1973, pp. 33-91.

** Information was drawn from project files maintained by the Development Information Division, Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, A.I.D., Washington, D.C.

*** One hundred thousand dollars.

(5) Inflation is still another serious problem. The effects of inflation on the real value of the US dollar and, even more importantly, on the real value of local currencies have been substantial over the time span of this study and also vary substantially across countries. Since we could see no systematic way of deflating both the dollar and local currency values--because of money flow problems--we decided to leave all values in nominal terms. (6) Finally, there is some overlap between the figures in columns two and four in Table 1. With the information that is available in Washington, we were unable to tell exactly when funds were spent in projects that started before 1973 but did not end until later. The figures in Column 4 of Table 1 are likely on the high side of the amounts actually spent on rural finance during the 1973-1990 period.

A CRITIQUE OF EVALUATIONS DONE ON A.I.D. FUNDED RURAL FINANCED PROJECTS IN LATIN AMERICA

Our original plans were to use some of the information reported in evaluations of A.I.D.'s rural finance projects to drawn conclusions about the performance of these projects. A.I.D. procedures require evaluations on most projects funded by the Agency. These evaluations are part of the project documentation assembled and maintained by A.I.D.'s Center for Development Information and Evaluation (CDIE). Unfortunately, these evaluations turned out to be less accessible and less useful for meeting the objectives laid out in our scope of work than we had originally anticipated.

Accessibility

Evaluation documents on some rural finance projects, for example, were not in CDIE's library or in its machine readable data base, especially on the oldest projects.[10] In other cases, only abstracts of evaluation documents were readily available in machine readable form. It would have been possible to obtain some hard copies of the original evaluation documents from microfiche or microfilm, but this would have cost several thousand dollars in reproduction costs that were not anticipated in our contract budget. A few complete evaluation documents--about two dozen--were available in CDIE's Library and in a university library. We reviewed these documents along with abstracts of evaluation documents that were available on about half of the other 157 rural finance projects covered by our study. We drew the following conclusions about evaluations of A.I.D. rural financed projects based on reviewing these documents and abstracts--assuming they were fairly representative of other evaluations that were unavailable:

1. Relatively few of the evaluations provided information that was useful in meeting the objectives of this study.

[10]We were surprised by how few of these evaluation documents were available in mission files on projects that had been completed in the three countries where we did case studies.

2. Many of the evaluations of projects with rural credit as only a component of a larger program provided little information about the credit activities.

3. Most of the evaluations that did analyze finance activities attempted to measure the impact of loan use on borrowers' activities in terms of changes in employment, income, output, capital formation, input use, or adoption of new technology.

4. Few of the evaluations measured the impact of the project on financial institutions handling the credit aspects of the program. Almost none of the evaluations documented transaction costs of either borrowers or lenders. Few of the evaluations provided detailed information on loan recovery performance or on deposit mobilization. None of the studies reported on the extent to which the credit project contributed to additionality in terms of numbers of borrowers or funds lend. Few of the studies provided insights on the extent to which the lending agency covered its cost of handling project lending out of interest receipts. None of the evaluations provided a clear picture of the extent to which the project strengthened or weakened the financial intermediary and whether the loan activities were sustainable without donor assistance.

Usefulness

Evaluations generally attempted to justify the credit program in terms of the targeting objectives set up for the project and these seldom included concern for the well being of the financial system. In many cases loans were viewed as a productive input rather than as increases in the borrower's purchasing power. In addition to providing little information on the financial institutions handling the credit projects, a number of the studies reviewed had methodological weaknesses that led to systematic overestimation of project benefits and underestimation of associated costs.

On the issue of overestimating benefits, for example, measuring accurately the impact of loans at the borrower level requires data that are difficult to assemble. Three methods were used in most of these impact evaluations: The first method assembled economic information about borrowers before, and after they used loans. Changes in borrowers' key economic indicators were then often attributed to borrowing. The second method used compared economic performance of a group of borrowers with a control group of non-borrowers. Differences in performance between the two groups were then attributed to the project loans. The third method relied on simple tabulation of the loan purposes stated by borrowers on loan applications. If, in the aggregate, a group of borrowers said they used their loans to buy ten tons of chemical fertilizer, for example, this was taken to be a partial measure of the impact of the loan--an increase by ten tons in the use of chemical fertilizer.

Even if evaluators have little interest in the well being of the financial system, all three of these methods have a tendency to overestimate the benefits realized by individuals from loan use. The before-and-after-loan method, for example, usually attributes all of the increases in output, input use, increases in employment, augmentation in investments, and increases in income to loan use. Too often the contributions of other development efforts that accompany loan use cannot be isolated or are ignored. Farm income, for example, may have increased because of favorable weather or higher prices that happened to accompany the lending program. Since before-loan information is seldom assembled in anticipation of a credit program, this type of information usually must be collected on a recall basis and borrowers may feel obligated to gild the lily when reporting how much progress they have made under the credit program, especially if they feel a favorable evaluation will enhance the chances of its continuation.

The with-and-without studies are vulnerable to another type of weakness. Unless loans are randomly distributed among a population it is virtually impossible to assemble a control group (firms or individuals without loans) who are identical--except for the fact they do not receive a loan--to the group of borrowers. If the lending program is efficient, it should select individuals who are creditworthy, who have excellent investment opportunities, who are good managers of their resources, and who are also above average entrepreneurs. With or without loans this group of selected individuals should achieve more over a given period than individuals in the control group. It is impossible to know what economic advances this selected group of borrowers would have realized without borrowing and, thus, it is easy to assign too much change to the use of loans.

The third method, as well as the second, is unable to measure the degree of financial substitution that occurs with the borrowing of project loans. For example, at least some farmer borrowers who use loans to buy chemical fertilizer may have been willing to use at least some of this modern input if project loans had not been available. They may have relied on informal finance, other sources of formal finance, self finance, sale of assets, or deferred consumption to fund investments they viewed as being highly profitable in the absence of project lending. Clearly, some measure of financial substitution and fungibility is involved in virtually every borrowing and it is difficult and costly to assemble data that yields clear insights into additionality in input use caused by a loan. Ignoring financial substitution results in estimates of the benefits of using loans that are exaggerated.

Occasionally anecdotal stories are presented in evaluation studies to suggest that the benefits of loan use are substantial, even if the overall benefits of the program are difficult to document. For example, a rural development project may make several small loans to a women in a village who is able to substantially increase her income by producing enough candles to meet the needs of her entire village. Because of borrowing, her income increases and she repays her loans with interest--the loans were successful in elevating the economic position of the borrower. At least partially, however, her gain may be another person's loss. A candle maker in a neighboring village may be able to sell fewer candles because of the competition and thereby suffer a decrease in her income, for example. The net social benefits of this increase in candle production are unclear, especially if project loans are subsidized.

These types of subtle issues that diminish the real benefits of credit projects are seldom dealt with in evaluations of A.I.D. rural finance projects.

Likewise, if value is placed on sustaining a viable, efficient, and equitable financial system attention must also be given to the wear and tear (costs) imposed on that system by an A.I.D. rural finance project. Virtually none of the evaluations we reviewed mentioned this issue. Over the past several decades A.I.D. has used a number of credit unions, cooperatives, development banks, and non-governmental organizations as channels for handling rural finance projects. Some of these organizations have now disappeared or are bankrupt. While A.I.D. should not be blamed for all the difficulties encountered by the financial institutions with which it has worked, it does bear culpability in some of these problems. A.I.D. and other donors, for example, were largely responsible for the large number of concessionary targeted rediscount lines in central banks that have dampened the interest in deposit mobilization among participating financial institutions, thus making them highly dependent on politically tainted funds. This, in turn, made it more difficult for lenders to recover loans, made them more vulnerable to political intrusions into the loan-making process, and also increased transaction costs associated with processing targeted loans. The social costs of the deposits not mobilized--because of the disincentives to save that often accompanied donor rural finance program--are substantial, even though they are difficult to document.

It would also seem appropriate to more carefully document the direct costs on financial intermediaries of A.I.D.'s rural finance projects. This includes answering most of the following questions. Was the intermediary able to protect the purchasing power of its loan portfolio from the ravages of inflation using A.I.D.'s interest rate guidelines? In addition, was the intermediary able to cover its costs of lending and default risks with the spreads allowed on interest rates? Were the costs of technical assistance, project evaluation, equipment depreciation, and training properly accounted for in costing the program? Finally, was the intermediary given a menu of activities that were sustainable after the extra support supplied by the donor was withdrawn, or would the program likely disappear with the exit of the donor?

Unfortunately, the A.I.D. evaluation documents we reviewed provided little information that would allow assessment of these costs or answers to these important questions. In large measure, the lack of this type of information suggests that financial market development was not an important objective in many of the projects evaluated.

Because of these shortcomings, we were unable to use summaries of information from these evaluations to measure the success or failure of A.I.D.'s projects in developing sustainable rural financial markets. Instead, we chose to compare the results of these projects with the policy guidelines for financial market development issued by the Agency in 1988.

THREE CASE STUDIES

The countries selected for case analysis were Bolivia, Guatemala, and Honduras. These countries were selected because they had relatively large programs in rural finance, because A.I.D. had been concerned about rural finance problems there for a number of years, and also because some research had been done on rural finance in each country. The case studies are presented in Appendix A to this report. Only a brief synopsis of each case is presented here.

Bolivia

The Bolivian Agricultural Bank (BAB) was founded in 1942 and has played a pivotal role in providing rural financial services since then. Various commercial banks, a few agricultural cooperatives, credit unions, several supervised credit programs, several non-governmental organizations, and various discount lines in the Central Bank have also provided rural financial services at various times since World War II.

A.I.D.'s first efforts in rural finance began in 1955 through a contract with International Development Services to assist in creating a supervised credit program within a bilateral agricultural Servicio that A.I.D. had helped to set up in 1948 (Rice, 1973). This credit program was later transferred to BAB in 1963. During the late 1950s and early 1960s A.I.D. made several additional loans or grants to BAB and also funded a directed credit program administered by the Federation of Credit Union Cooperatives (FENACRE). A variety of rural credit efforts were also funded by A.I.D. through a Special Fund for Economic Development established in the Central Bank. In the early 1970s A.I.D. provided additional financing for rural credit through an Agricultural Rediscount Fund in the Central Bank that funded the BAB, as well as private banks, credit unions, and other public credit agencies.

Since the early 1970s A.I.D. has directly funded 17 projects with major rural credit components amounting to more than a quarter of a billion dollars, a substantial part of which was directed at targeted activities in rural areas. In addition, a number of other rural finance projects were funded out of A.I.D. controlled P.L. 480 funds. Few of these programs focused exclusively on expanding or strengthening rural finance and the activities for which loans were targeted included: small businesses, basic food producers, colonization, agricultural cooperative members, rural investments, a loan guarantee program, market town development, credit union members, disaster relief loans, and coca substitution.

At various times the Inter-American Development Bank and the World Bank have also provided substantial assistance to rural finance in Bolivia.

Guatemala

In 1929 the Credito Hipotecario Nacional de Guatemala was formed to supply agricultural loans. An additional agricultural lending agency, the Instituto de Fomento de la Produccion was founded in 1948 and in 1953 the Banco Nacional Agrario (BNA) was established to provide still another source of loans in rural areas. A.I.D.'s first efforts in rural finance in Guatemala began in 1955 in support of a colonization effort. Later, U.S. funds and technicians were used to develop a supervised credit program in BNA (Rice, 1973). Until 1962 most of A.I.D.'s rural finance efforts were attached to BNA. Subsequently, the supervised credit program was absorbed by a new bilateral Servicio, SCICAS, that reported to the Ministry of Agriculture.[11] In 1963, the Inter-American Development Bank took over the primary funding of the supervised credit program.

Apart from supervised credit, A.I.D. also provided substantial funding for loans to rubber farmers in 1959. In the 1960s A.I.D. began supporting two lines of cooperative development that involved on-lending to farmers. In 1964 A.I.D. support was given to credit unions and later A.I.D. also supported multi-purpose agricultural cooperatives that all on-lent to farmers. In the early 1970s A.I.D. provided substantial support to BANDESA, the successor to SCICAS. This again brought A.I.D. into the business of promoting supervised credit. From the early 1970s until now, A.I.D. has provided funding for rural finance through nine projects amounting to a total of about $80 million.

Honduras. Prior to 1950 only a small amount of farm lending was done in Honduras by a couple of commercial banks. In 1950 the Government formed the Banco Nacional de Fomento (BANAFOM) with its primary purpose being to provide agricultural loans. Very early the Food and Agricultural Organization (FAO) helped the Bank develop a supervised credit program that encountered substantial problems. In the mid-1960s A.I.D. began supporting two tracks in rural finance, one aimed at small farmers through BANAFOM, and the other at strengthening lending by credit unions and cooperatives. Later A.I.D. made additional loans or grants to fund loans for food production, livestock, grain storage facilities, agricultural cooperatives, and agro-industries.

Since the early 1970s A.I.D. has funded 24 projects with substantial rural finance components worth, in total, about $300 million. In addition to general funding for expanding the amount of rural lending, assistance was given to credit unions, to assist in strengthening rural organizations, in loans for small farmers, to supervised credit, to export

---

[11]One of the reasons A.I.D. encouraged the shifting of the supervised credit program away from BANAFOM to the Ministry of Agriculture's control was because BANAFOM resisted applying concessionary interest rates on supervised loans for small farmers! (Rice, 1973, p.36). The widespread amnesia about previous A.I.D. efforts in rural finance in Latin America may be a blessing in disguise, since A.I.D. might be otherwise subject to consistency complaints by local policy makers.

promotion, for disaster relief, for improvement of coffee production, to facilitate land sales, to enhance rural technologies, for forestry development, to promote deposit mobilization, for microenterprises, and for irrigation facilities.

In addition to A.I.D., the Inter-American Development Bank has also provided substantial funding to BANAFOM. There are also four commercial banks in Honduras that do significant amounts of agricultural lending, largely out of their own funds.

LESSONS LEARNED

A number of useful lessons can be drawn from the three case studies, the review of A.I.D. projects and associated evaluations, informal discussions with A.I.D. employees knowledgeable about rural finance, the large volume of literature available on rural finance, and cross country comparisons.[12]

1. The first lesson is that developing a strong and sustainable rural financial system in Latin America is much more difficult to do than experts initially anticipated immediately after World War II. At the same time the financial infrastructure in most Latin American countries has been substantially expanded the past 50 years. A.I.D. can take pride in the numerous financial institutions it has assisted in Latin America, but it is discouraging how many of these organizations, have disappeared, are insolvent, or unable to survive without outside assistance.

2. While all of A.I.D.'s efforts to reach the rural poor through various types of credit programs have been well intentioned, many of these efforts ended up being high cost and transitory. Many of these programs essentially disappeared, or substantially shrunk, soon after A.I.D.'s support was withdrawn. A.I.D. and other donors have had a difficult time designing rural financial institutions that were efficient, equitable, and sustainable.

3. It appear that few of the borrowers from A.I.D.'s rural credit programs "graduated" to commercial forms of borrowing or that programs were able to "graduate" to non-concessionary sources of funding.

4. With 20/20 hindsight, it is clear that cheap credit was an inequitable instrument for helping the rural poor. Since the benefits from using concessionary loans are always proportional to loan access, borrowers who receive large loans always receive more benefits than small borrowers or non-borrowers. Subsidies tied to loans, therefore, often help the rich more than the poor. The low interest rates, in turn, make it more

[12]Readers wishing additional documentation on these lessons may wish to refer to some of the publications listed in the Bibliography.

difficult to mobilize deposits, distort lending decisions, and undermine the vitality of the lender.

5. It also appears that loans are a relatively weak policy instrument for influencing producers' behavior. Product prices, new technology, and input prices factor into the decisions of most small producers more strongly that do loans and interest rates. A loan, regardless of the terms placed on it, does not alter the relative profitability of investments faced by producers, nor make an unprofitable investment profitable. This calls into question the efficacy of doing extensive loan targeting.

6. A.I.D. deserves special recognition for helping to prove that many of the rural poor in several countries in Latin America are willing to deposit significant amounts of funds under appropriate conditions.

7. A.I.D. is also largely responsible for helping to clarify the substantial transaction costs that lenders incur when participating in targeted lending and how these costs affect lending behavior. Closely associated with this, A.I.D. has also helped to clarify the important role transaction costs incurred by borrowers and depositors play in their behavior. In many cases, high transaction costs for lenders, deposit mobilizers, borrowers, and savers have limited the access of poor people who live in rural to formal financial services.

8. While A.I.D. has often been instrumental in encouraging policy reforms in rural financial markets, it has been difficult for the Agency to do this systematically in conjunction with the kinds of targeted credit projects that made up most of its portfolio in Latin America. The Agency has been most successful in encouraging interest rate reforms and in consolidating rediscount lines in central banks.

9. Overall, it has been difficult to design projects that focus on enhancing the performance of rural financial markets within Congressional mandates that are more easily accommodated through loan targeting.

10. Finally, a review of A.I.D.'s evaluation documents on recent rural finance projects revealed some limitations in their design that were discussed earlier.

POLICIES COMPARED TO PRACTICE

It is easier to prepare a policy paper in Washington than it is to encourage new policies in A.I.D. assisted countries. As a result, there is substantial difference between A.I.D. policy and practice in the area of rural finance in Latin America.

Objectives and Accomplishments and Shortfalls

As was mentioned earlier, A.I.D.'s policy paper on Financial Markets identifies seven major objectives that Missions ought to pursue.

Accomplishments: A.I.D., and other donors, have done best in encouraging the liberalization of interest rate policies, a vital ingredient in the new views. The Agency has also been successful in reducing transaction costs by consolidating credit lines in several countries, for example, in the Dominican Republic and in El Salvador. A.I.D. has also been ahead of the pack in sponsoring research on rural finance--a precursor to financial sector assessments--in a number of Latin American countries. The Agency has also sharply lessened its attempts to use financial markets as vehicles for handling income transfers or subsidies for borrowers which, in turn, enhances the ability of these markets to allocate resources more efficiently. A.I.D., and other donors, have also become more sensitive to the costs imposed on financial intermediaries by donor credit programs. A.I.D. deserves especially high marks for its leadership in developing the new thinking on rural finance, the associated research it has sponsored, and the extensive policy dialogue--especially among donors--it has stimulated on this topic. Also, A.I.D.'s pilot efforts in rural deposit mobilization, especially in Peru and the Dominican Republic, have broken new ground.

A.I.D.'s innovative efforts in the Dominican Republic merit special mention. Through several projects, the Mission has promoted deposit mobilization in rural areas, lowered transaction costs in the Agricultural Bank and some credit unions, funded applied research that supports sustained policy dialogue, and carried out a number of seminars that exposed a large number of policy makers in the country to new thinking about rural finance. These efforts spanned most of the 1980s, were heavy on technical assistance and light on funding, and had strong back stopping from Mission staff. The efforts in the Dominican Republic provide a valuable model for systematically addressing major policy issues that might be more widely applied in Latin America.

Shortfalls: A.I.D. has made less progress in promoting equity markets, in encouraging large segments of financial markets to mobilize deposits, and in inducing policy changes that would provide economic environments more conducive to vigorous rural financial markets. As the three case studies show--in attempts to meet Congressional mandates--A.I.D. also continues to use rural financial markets extensively for handling targeted loans with suspect results and with adverse effects on the ability of these markets to allocate resources efficiently. As a result, many of A.I.D.'s rural finance projects end up providing transitory financial services that terminate with the project and which often weaken the agency handling the loans. A.I.D. has also found it difficult to address the problem of improving the overall efficiency of rural financial markets. Loan recovery problems continue to persist, high transaction costs for lenders, borrowers, and depositors are common, and far too many of the financial institutions assisted by A.I.D. remain dependent on outside funding. A.I.D. missions have also been slow to include improvement of financial intermediation as a primary objective in their rural finance projects. This shows up most clearly in evaluations done on these projects.

It is not plausible to expect the busy staff of disparate A.I.D. missions to evolve the dramatically new and difficult-to-implement strategy for rural financial markets outlined in the 1988 policy statement without strong leadership from Washington and without more formal training to upgrade staff understanding of the subtle and difficult issues embodied in the new views on rural finance. There is also little sharing of successes and failures in current rural finance projects among missions--a function that ought to be provided by Washington staff.

RECOMMENDATIONS

LAC\DR\RD and associated missions might consider implementing the following strategy in the 1990s to bring A.I.D. funded rural finance programs in Latin America more in line with the policy guidelines proposed in the 1988 policy statement on financial markets. The recommendations that follow are ordered by time priority.

1. A.I.D. MIGHT ADD AT LEAST ONE PERSON TO ITS WASHINGTON STAFF TO COORDINATE AND BACKSTOP MISSION PROGRAMS IN RURAL FINANCE

In part, A.I.D. has difficulty implementing in Latin America the new policy directives on financial markets due to the lack of Washington back stopping. A person might be added to the LAC staff who is a specialist in rural financial markets and who can help missions adopt the new strategy outlined in A.I.D.'s 1988 policy statement. The job description for this position might include the following activities:

i. Assist missions in doing financial sector assessments. This should include identifying qualified consultants to do the assessments, developing a standard format for these assessments, and helping the missions to interpret results.

ii. Assist missions in developing rural financial sector projects that stem from the above-mentioned assessments. This might include helping to initiate sustained policy dialogue. Some of this might be done on a regional basis through workshops and seminars.

iii. Be a liaison with other development agencies in Washington to assure that donors are not at cross purposes in rural financial markets activities in Latin American countries.

iv. Be a clearing house for new publications and research on rural finance that might be of interest to missions.

v. Conduct regional and country seminars to expand knowledge of mission staff and policy makers about new views on rural finance. This should include providing opportunities to share success stories among missions.

vi. Take the lead in arranging short-course training programs for A.I.D. staff, local officials, and consultants on the most difficult aspects of the new views about rural finance.

vii. Assist missions in doing more useful evaluations of rural finance projects and helping them to contact qualified consultants

viii. Be a resource person who can explain to Congress how the new approaches to using rural financial markets in Latin America will better achieve A.I.D.'s Congressional Mandates.[13]

2. A.I.D. MIGHT DO LESS TARGETED LENDING

The three case studies show that A.I.D. continues to do mostly loan targeting in its rural finance activities, largely in attempts to achieve Congressional Mandates. Research the past several decades has shown, however, that loan targeting is usually ineffective in providing targeted groups with sustainable financial services and often damages the performance of rural financial markets (e.g., Vogel and Larson; and Cuevas and Graham's chapters in Adams-Graham-Von Pischke). Targeting is <u>ineffective</u> and gives a false sense of control because of fungibility.[14] A loan, regardless of the terms placed on it, does not alter the relative profitability of a targeted activity.

Loan targeting is damaging because it undermines incentives to mobilize deposits (because of cheap rediscount lines), adds to the transaction costs of borrowers and lenders,

---

[13]Congress will likely continue to insist on targeting foreign assistance. It is A.I.D.'s responsibility, however, to help Congresspersons and their staffs to understand the limitations and problems of using loans for this purpose. A rural finance specialist in LAC ought to be aggressive in sharing publications and information with people on the Hill who need a better understanding of these problems. There is nothing wrong with targeting foreign assistance, but it is wrong to continue using credit programs to echo those targeting priorities when they may be ineffective in achieving the desired results.

[14]The essential characteristic of money is its interchangeability, or fungibility. One unit of a currency is indistinguishable from another unit. A targeted loan, therefore, simply adds to the liquidity a borrower has for spending. How the borrower decides to allocate the additional liquidity will largely depend on the marginal rates of return or the additional satisfaction that might be realized from various alternatives available to the borrower, not on the purposes stated in obtaining the loan. See article by Von Pischke and Adams for a more ample discussion of this issue.

and clogs information channels with data that are not useful for managing financial institutions.

Sector lending might largely substitute for smaller targeted programs. If targeting is a political imperative, limit its adverse effects on deposit mobilization and transaction costs by taking care not to set preferential interest rates on loans and also keep the reporting requirements to a minimum.

3. A.I.D. MIGHT PREPARE SECTOR STUDIES OF RURAL FINANCIAL MARKETS, INCLUDING ANALYSES OF INFORMAL FINANCE, BEFORE FUNDING RURAL FINANCE PROJECTS

Skilled physicians seldom give prescriptions to individuals without first doing physical examinations to isolate the causes of disease. A.I.D. might do likewise in its rural finance activities; it might give rural financial markets physical examinations--understand how they operate and why--before developing related projects. For example, is the fact that most commercial bankers refuse to lend to small farmers, but informal lenders eagerly do so, largely a question of transaction costs or traditional attitudes? Likewise, various forms of informal finance may be highly successful in mobilizing deposits from poor people, while banks and cooperatives are much less successful. Is this largely due to policies that dampen incentives to save or to mobilize deposits, or is it due to low propensities to save?

To its credit, A.I.D. has sponsored a substantial amount of research of rural finance in Bolivia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica that provides a substantial amount of the information needed in these financial sector studies.

These financial sector studies might have four components. First, they could include in-depth analyses of informal finance to determine the types of services provided therein, the financial technologies used in these informal markets, and the contact points between formal and informal finance. This would yield a clearer idea about the types of financial services that rural people currently find useful and the techniques they have invented to satisfy these demands. It would also show the extend to which A.I.D. target groups are serviced by informal finance.

Second, the structure and performance of the formal financial system should be documented. This includes assembling aggregate and institution-specific information on number of clients served through both loans and deposits and whether this number is static, increasing, or declining. Detailed information on loan recovery performance, deposit mobilization performance, and financial status of formal institutions should also be collected. Comparative costs of effecting similar financial transactions and information about changes in these transaction costs is also useful in evaluating performance. It is also important to document the types of loans being made by the system and major sources of funds for lending.

Third, the reasons for faulty performance should be diagnosed. For example, is the financial system finding it difficult to mobilize deposits because of concessionary rediscount lines, legislation that prohibits development banks from accepting deposits, or because of high reserve requirements? Is the financial system hesitant to lend to the rural poor because of the transaction costs involved, the lack of acceptable loan collateral, or because of interest rate restrictions? Do donor procedures increase or decrease the transaction costs associated with a credit program? Does the insertion of external funds into rural financial markets introduce political pressures to make loans on some basis other than credit-worthiness and does this lead to loan default problems?

Fourth, prescriptions for ameliorating problems and the role A.I.D might play in this could be included. For example, if formal lenders resist lending to more of the rural poor because of high transaction costs, the analysis should identify ways to reduce these costs. If agricultural banks are discouraged from mobilizing deposits by concessionary rediscount lines, policy changes should be identified for eliminating these disincentives. If a large number of policy makers in the country do not accept the new views about rural finance, mechanisms should be proposed for helping them better understand these new ideas.

4. A.I.D. MIGHT FORM PROJECTS DIRECTED AT IMPROVING THE OVERALL PERFORMANCE OF RURAL FINANCIAL MARKETS

Many of the problems in rural finance result from incorrect policies, not the lack of loanable funds, technical knowledge, or formal financial institutions. Policy problems occur in interest rates, reserve requirements, the way financial markets are used, charges on rediscount lines, information requirements, supervision and regulation of financial institutions, sources of loanable funds, and macro economic decisions. A.I.D. and other donors have slight if any influence on these policies via small and short-term projects that focus on segments of the financial system.

A.I.D. might have more influence on policies if its assistance were bundled in financial sector loans.[15] These loans might focus on improving the overall performance of rural financial markets in terms of loan recovery, transaction costs, deposit mobilization, geographic coverage, range and quality of financial services provided, the number of people served, and the viability and sustainability of financial institutions.

Regarding Congressional mandates, A.I.D. might argue that an efficient, expanding, and sustainable rural financial market will reach more of the rural poor than has occurred through a variety of targeted credit programs in the past. If the new views are fully applied, large numbers of the rural poor will have access to attractive deposit services for the first time, some of them will also have access to more formal loans, and many of the rural poor

---

[15]The World Bank and the Inter-American Development Bank have both moved in the direction of doing more rural financial sector lending the last several years.

will receive enhanced services through informal finance, that, in turn, has improved access to sustainable formal finance.

5. A.I.D. MIGHT EMPHASIZE DEPOSIT MOBILIZATION IN ITS RURAL FINANCE PROGRAMS

Most rural financial systems that operate efficiently and equitably aggressively mobilize deposits. The farmers associations in Japan, South Korea, Taiwan are widely recognized as efficient and equitable organizations that help a large number of rural clients both with deposit and loan services. The more recent and highly successful KUPEDIS/ SIMPEDES programs in Indonesia also stress deposit mobilization. Recent research on the Agricultural Bank in the Dominican Republic, and on credit unions in Honduras and in the Dominican Republic show these organizations operate more efficiently and equitably when deposit mobilization is stressed (see two studies by Poyo). Deposit mobilization enhances performance by reducing political intrusions (compared to targeting), results in more discipline among financial intermediaries and savers, provides deposit services to the poor who would otherwise not have these services, and improves the efficiency of resource allocation in rural areas. Financial systems that mobilize substantial deposits also make fewer calls on tight government budgets.

Donor agencies have found it difficult to directly assist deposit mobilization because it does not require much foreign exchange. A.I.D. has been creative, however, in funding several small technical assistance projects in Latin America that demonstrated the feasibility of mobilizing substantial amounts of voluntary deposits in rural areas. It might extend these programs into other countries as a way of demonstrating the opportunities to mobilize more deposits. Even more importantly, A.I.D. and other donors might coordinate their efforts so as not to inadvertently discourage deposit mobilization and to, in fact, encourage same. This includes assuring that attractive incentives are offered on deposits, reducing the disincentives financial intermediaries have to seek deposits, and not helping lenders to become highly dependent on external funds when deposits could provide a substantial portion of the loanable funds. A.I.D. has learned a great deal about how to mobilize deposits in rural areas through several pilot programs in the Dominican Republic during the 1980s. This experience and approach might be extend to most of the other countries in Latin America.

6. A.I.D. MIGHT ENGAGE IN SYSTEMATIC, LONG-TERM DIALOGUE WITH LOCAL POLICY AND OPINION MAKERS OVER CONTROVERSIAL ISSUES IN RURAL FINANCE

Many of the problems in financial markets in Latin America are caused by incorrect policies and these policies have been difficult to influence through the project approaches traditionally used by A.I.D. Virtually all of these policies are linked to other critical economic considerations and are often sustained by powerful political and economic forces that benefit from these policies. Lack of clear understanding about the adverse effects of these policies increase the difficulty of encouraging policy changes. By-and-large, A.I.D.

(and other donors) has had only limited success in using numerous, relatively small and targeted loan projects to precipitate major changes in policies. These projects are often negotiated with individuals or agencies who play little or no role in setting policies that damage financial markets most. Often, the negotiations surrounding the project take place relatively quickly and do not allow for the time and patience that is often required to realize a major policy changes.

In large part the policy issues that ought to be front and center in A.I.D.'s policy dialogues are outlined in its 1988 policy statement on financial markets. They include interest rate policies, reserve requirements, charges on rediscount lines, use of rediscount lines, taxes on financial institutions, reporting requirements, the way financial markets are used to support development, defaults, use of financial markets to transfer subsidies, loan targeting, and the criteria used to evaluate financial market projects.

Doing systematic financial sector assessments that carefully document the shortcomings of existing system, focusing on larger projects that more directly address the financial system, and including a systematic and relatively long-run policy dialogue with the project may give A.I.D. a better chance of encouraging important policy changes. The combination of pilot projects, applied research, policy seminars, and ongoing policy dialogue along the lines done in the Dominican Republic the past few years provides a promising model for how to stimulate appropriate policy changes elsewhere.

FINAL COMMENTS

Rural development in general, and development of sustainable formal financial markets to support this development in particular, are difficult tasks. It is even more difficult when the focus is the poorest of the poor. Providing sustained financial services to the rural poor is the most difficult and costly thing that can be asked of formal financial systems. It should not be surprising, therefore, that many of A.I.D.'s efforts in this regard encounter problems. U.S. foreign assistance agencies, nevertheless, have been instrumental in helping most countries in Latin America to expand their formal financial systems servicing rural areas since World War II. Possibly even more importantly, A.I.D. has also been aggressive in studying its successes and failures and learning how to do a better job of providing the rural poor with formal financial services. A.I.D.'s 1988 policy statement on financial market development is a distillation, in large part, of that learning.

A.I.D studies have also substantially clarified why many credit programs aimed at rural clients in Latin America encounter problems. These studies shown that part of these difficulties are caused by disadvantaged rural economies--one should not expect financial systems to be vigorous and healthy if the enterprises they service are economically stressed. It is obvious that formal rural financial markets in Latin America perform poorly partly because of slow and erratic agricultural growth. Serious bouts of inflation also limit the ability of many formal rural financial markets to function as efficiently and equitable as they might.

Not all of the maladies in rural financial systems can be attributed to adverse economic environments, however.[16] It is becoming increasingly apparent that at least part of the problems in these systems is due to attempts to use formal financial markets for purposes beyond their capacities--essentially design problems in traditional rural finance project. The numerous attempts to use cheap credit to help the poor in Latin America--as well as elsewhere--have largely failed with most benefits going to the non-poor. Likewise, the numerous attempts to use targeted loans and augmentations in the supply of credit funds to boost rural production have yielded disappointing results. All too often, targeted credit programs result in transitory financial services, elevated transaction costs, political intrusions into loan making decisions, discouragement of deposit mobilization, and financial systems that are dependent on outside funds.

In large part, donors have used financial markets in Latin America as a "commons" the past 30 years; hundreds of donor funded credit projects have been imposed on these markets with little regard for how they affect the sustainability of the overall financial system. Despite numerous attempts to form new formal financial intermediaries or to strengthen existing institutions, there have been few donor funded programs that were aimed directly at enhancing the overall performance of these markets. All too often attempts to strengthen segments of these markets, without changing the economic and policy environment in which they operate, led to failure. Because of the way they were designed few of these credit projects had a substantial impact on financial market policies.

In large part, A.I.D. has had limited influence on critical policies affecting financial markets because its efforts are fragmented into many small and relatively short-run projects. The three case studies show that A.I.D.'s projects in rural finance are largely transacted with agencies that have little to do with the most important policies affecting rural financial markets, namely the central banks and the ministries of finance. This problem is exacerbated as A.I.D. increasingly shifts it efforts to the private sector. Furthermore, the burdens of managing these project make it difficult for mission employees to do subtle and difficult policy massaging.

If implemented by LAC\DR\RD, the recommendations presented in this study will result in a major change in the way A.I.D. addresses and uses formal rural financial markets in Latin America.[17] The challenge at hand is to improve the performance of rural financial

---

[16]The fact that informal finance often flourishes in many situations where economic environments are harsh, suggests that the health of financial intermediation is not entirely dependent on economic growth and stability.

[17]Since the recommendation in this report are closely related to A.I.D.'s own policy statement, implementation of these recommendations will essentially mean that LAC\DR-\RD lives up to directives it received in 1988.

markets.[18] Sharply reducing the transaction costs of lenders, savers, and intermediaries will be a critical part of this process. New financial technologies that allow intermediaries to reduce transaction costs, and new policies that encourage the development of these innovations must be a central part of these efforts. Formal financial intermediaries will only extend their services further down the economic ladder to the rural poor on a sustained basis when the costs of financial intermediation are reduced.

[18]As an aside, A.I.D.'s current emphasis on private sector development is resulting in a relatively large number of microenterprise projects in Latin America that have major credit components. Many of these projects are managed by private sector offices in A.I.D. missions rather by rural or agricultural offices. These projects are very similar to the spate of small farmer credit projects that A.I.D. promoted in Latin America up until about 10 years ago and these microenterprise projects may be repeating many of the errors experienced in those programs. It may be advisable, therefore, for the entire LAC Bureau to consider applying A.I.D.'s policy 1988 guidelines on financial market activities, rather than limiting these changes to only those emanating out of the LAC\DR\RD office.

APPENDIX A

A.I.D. SPONSORED RURAL FINANCE PROJECTS IN BOLIVIA

by
Jerry R. Ladman*

INTRODUCTION

The purpose of this paper is to review the evolution of A.I.D.'s rural finance programs in Bolivia over the 1970 the 1990 period and to assess the extent to which these programs fit within A.I.D.'s new policy framework for finanical market. The influence A.I.D. has had on policies associated with financial markets is also examined.

Bolivia is an interesting country to study because A.I.D. has sponsored a large number of agricultural credit programs there the past two decades and for most of the time the government had a fixed interest rate structure, with concessionary rates for agricultural credit. Moreover, the political turmoil, the hyperinflation that occurred in the first half of the 1980s, and the successful stabilization program in the last half of that decade make that country somewhat unique. Each of these factors furnished a special environment that influenced financial market development and created unusual circumstances for A.I.D.'s programs.

This study is organized in three parts: (1) a historical overview of USAID/Bolivia's activities; (2) a brief description of other international donor projects in agricultural credit in Bolivia; and (3) a critique of A.I.D.'s rural financial market activities in Bolivia based on the criteria in the 1988 Policy Paper.

HISTORICAL OVERVIEW

Over the two decades under study there are five identifiable periods that represent different programming, project and policy activities by AID/Bolivia: (a) 1970-1974, a time when projects to promote production of basic foodstuffs and import substitutes were stressed; (b) 1975-1978, a period when projects targeted to benefit small farmers were emphasized; (c) 1979-1982, a time when A.I.D. funding and programming was cut back due to political problems; (d) 1983-1985, a period of natural disasters and hyperinflation and when ad hoc PL-480 domestic currency programs were developed; and (e) 1986-1990, a time when the PL-480 programs were expanded and financial markets were restructured in the aftermath of economic stabilization.

---

* Professor of Economics, Arizona State University.

1970-1974

Prior to the late 1960s, the Bolivian Agricultural Development Bank (BAB), which was established in 1942, was virtually the only financial institution to provide loans to farmers. In 1967, this began to change when the Bolivian Government (GOB), with urging from A.I.D., established regulations that 70 percent of each commercial bank's loan portfolio should be in productive activities, including agriculture. Simultaneously, A.I.D. provided funding for the Bolivian Central Bank (BCB) to establish a development-oriented refinancing line, the 511-L-014 Project, the Special Fund for Economic Development (D.S. 07911), which was to be used to refinance loans extended for productive purposes. The $6.49 million funding for this project was in local currency that was provided by the GOB to repay interest and principle on a previous A.I.D. loan that had been made for the mining sector. Of the total funding, $3.5 million was earmarked for agriculture.

This was a period when A.I.D. was stressing credit projects to increase agricultural output, especially of basic foodstuffs and substitutes for food imports. To this end, in 1971 A.I.D. financed another BCB rediscount line, the 511-L-042 Project, the First Agricultural Refinancing Fund (FRA-1), with a loan of $7.25 million. The fund was available to both the commercial banks and the BAB, and was to be used mostly for financing small- and medium-sized farmers.

In 1972 the Industrial Refinancing Fund (FRI) was established as another BCB discount line with a $8 million loan from A.I.D. and $1 million in counterpart funds. The purpose was to help stimulate industry, including agribusiness, in exports and import substitutes.

Analysis: These three projects were the Mission's first efforts to finance agriculture in the 1970s. They reflect A.I.D.'s prevailing policies of the time, e.g., financing overall production, especially basic foodstuffs and food imports, using Central Bank rediscount lines to make credit available to the entire banking system, and not just to a development bank, targeting or directing the credit to specific objectives, and employing concessionary interest rates for the final borrowers. The projects were successful as measured by disbursement of funds. They were important contributions to rural finance as attested by the fact that total agricultural credit extended by the banking system increased almost five times in real terms between 1967 and 1974 and that the commercial bank's relative participation rose from 10 to 34 percent. It should be noted, however, in this same period, there was a rapid but temporary expansion of bank lending for capital-intensive cotton production in the Santa Cruz region.

The use of BCB rediscount lines was an innovation in that it made the funds available to the entire banking system. Nevertheless, for several important reasons, the nature of the terms and conditions of extending credit under the projects was to create or exacerbate problems for rural finance and appropriate financial intermediation. First, the funds were made available by A.I.D. to the GOB on very soft terms. These inexpensive sources undoubtedly allowed the government to substitute them for domestic savings and perpetuated a dependency on foreign assistance to finance agricultural loans. Second, the concessionary interest rates charged the final borrower, which were established by the GOB, distorted rural financial markets by: (a) leading to the misallocation of financial and real resources; (b) contributing to political interferences in lending due to the implicit income transfers to borrowers; (c) causing banks to rely on non-price credit rationing mechanisms to allocate credit, which raised both bank and borrower transaction costs; (d) discouraging lending to small farmers because of these high bank and borrower transaction costs; and (e) increasing the individual banks' dependency on rediscounts as a source of loanable funds for agriculture rather than domestic savings. Indeed, in this period there was no A.I.D. program objective of mobilizing rural.

A.I.D.'s policies were consistent with these of the GOB, the centerpiece of which was concessionary interest rates for agricultural loans. As would be expected, delinquency was a major problem. Indeed, a considerable portion of the FRA-1 rediscount line was immobilized due to weak loan repayment. In addition, the Bolivian Agricultural Bank (BAB) had a very large portion of its total portfolio in the non-performing category, and this bank was also dependent on government subsidies or foreign financing to maintain its level of lending. Most of FRA-1 loans went to large farmers, and not the targeted group of small- and medium-sized operators.

<u>1975-1978</u>

In the mid-1970's, the Mission's projects in rural finance changed to emphasize small-farmers. During this period there were six new A.I.D. projects, two with BAB, one with integral cooperatives, and three new BCB rediscount lines.

The flagship project was the Small-farmer Credit Program (PCPA) established by the Mission at the BAB under the Agricultural Sector I Project (511-T-053). Under this project, A.I.D. made a $4 million loan to the GOB, that also contributed $1 million in counterpart funds, to capitalize a $5 million rotating credit fund. The project also provided technical assistance, vehicles and equipment to the BAB for implementing and operating the program. The program was originally limited to five departments. Because of the BAB's precarious financial condition, A.I.D. required that the PCPA be organized as a separate entity in the bank. Most lending was for investment projects with a short-term credit component. In 1977, under the Agricultural Sector II Project (511-T-059), the PCPA was expanded to encompass another department. There was an additional A.I.D. grant of $3.5 million and GOB counterpart of $1.2 million. At the same time, A.I.D. made a grant for credit of $1.23 million for a Yacuiba Land Clearing component in the department of Tarija.

In 1976, the Mission undertook a second major project to reach small farmers, when it initiated Project 511-T-055, the Revolving Fund for Community Development (CROFOC). CROFOC provided credit to the four newly-formed regional integral cooperatives in the departments of Cochabamba, Potosí, Santa Cruz and Tarija. CROFOC lent the funds to cooperatives; which, in turn, onlent the funds to members. Funding for the credit component of the project was a \$5.7 million. The project was initially administered by the National Community Development Service. Later, the credit component was transferred to the PCPA and, ultimately, to PL-480.

A third major project was the establishment, in 1974, of the Second Agricultural Refinancing Fund (FRA-2) as a BCB rediscount line, to be used exclusively for financing small farmers (Project 511-T052). The fund of \$11 million was provided through a \$8 million loan from A.I.D. and \$3 million in GOB counterpart funds.

The Agriculture and Artisanry Project (A and A) was another rediscount line established at the BCB. Funding consisted of a loan of \$9 million, with \$8 million in an A.I.D. loan and \$1 million in GOB counterpart funds. This project was designed to promote relatively small-scale agribusiness and artisanry projects in rural areas that would benefit the low-income rural population. As part of the same program, the Technical Assistance Fund (FAT) was established at the BCB to provide credit for feasibility studies for potential A and A projects as well as training and promotional programs. The \$400,000 project was funded by a loan of \$200,000 from A.I.D. and \$200,000 in GOB counterpart funds.

The other project was the \$500,000 credit component (CRAC) of the 1974 Agricultural Colonization Project (511-L-050) in Santa Cruz. This overall project assisted development of two colonization projects. CRAC was administered by the BAB, whereas the overall project was run by several GOB entities, headed by the National Colonization Institute.

<u>Analysis</u>: The Mission's projects in this period reflect A.I.D.'s new interest in directing credit to small farmers, which arose from the realization that few of the funds in their general credit programs, such as FRA-1, reached this clientele. All new projects were designed to work exclusively with small farmers and had conditions to try to force credit to the target clientele. Each project targeted funds for end use, but most did not have major restrictions by type of product. Only one project, A and A, was targeted exclusively to specific investment objectives, e.g., agribusiness and artisanry.

There were no fundamental changes from the previous period, 1970-1979, with respect to the terms under which Bolivia received the funds and for which they were made available to small farmers, e.g., Bolivia received the money on soft terms and loans were made at concessionary rates established by the GOB. In the case of the PCPA, BAB received a grant to capitalize the project. Therefore, the inherent weaknesses in the system that are described above were carried forward. As before, there was no emphasis on deposit mobilization; indeed, only one project, CROFOC, had a savings component: forced savings in the form of required deposits by members of the regional cooperatives.

The projects met with mixed success. The PCPA was well organized, disbursed funds on schedule and had reasonable success in loan recovery. It was reported to be self-supporting in the sense that its revenues covered costs. However, there was no financial cost assessed for its loanable funds, BAB having received them as a grant. Research showed that BAB's credit delivery system involved high costs for both the Bank and borrowers. The concessionary interest rate charged to borrowers allowed the bank to barely cover expenses and there was no opportunity for growth of loanable funds except from more donations.

The CROFOC program was much less successful. A classic mistake was made when the funds were disbursed to the cooperatives and, in turn, to their members before the cooperatives had become solidly established. As a result, borrowers viewed credit as a grant and did not repay their loans and in successive years the program had to be scaled back. Later, the program was transferred to the PCPA, and in the 1980s, it was transferred to PL-480. For similar reasons, CRAC experienced major delinquency problems.

Both the PCPA and CROFOC programs utilized group loans as innovations in their credit delivery systems as a means to try to reduce lender and borrower transaction costs. These met with mixed success; in many instances, the group members were not willing to meet their obligations to pay the delinquent loans of their fellow group members.

The new BCB rediscount lines experienced problems in utilizing the funds. The apparent reason was that the commercial banks were reluctant to lend to the targeted clients. The FRA-2 line moved slowly and the bulk of lending under it was done by the BAB. Even though larger interest rate spreads were later introduced to induce commercial bank use, there was little change. The cumbersome credit delivery systems discouraged use by banks. The number of projects developed for the A and A project were much fewer than originally anticipated. The FAT was not used much either. The performance of all of these projects illustrates the problems commercial banks have in lending to low-income rural people.

In this period, the real value of the amount of credit lent for agricultural purposes by the banking system remained reasonably stable; in 1978, the real amount was only slightly higher than in 1974. However, by 1978 the relative participation of the commercial banks had risen to about one-half. In part, this reflected the decline in real amounts lent by BAB, which by this time was experiencing serious shortages of loanable funds due to its high level of non-performing loans in its regular programs.

<u>1979-1982</u>

This period was marked by political instability associated with redemocratization after fourteen years of military rule. There were three inconclusive general elections in 1978, 1979 and 1980. Between 1978 and 1980, there was a series of four interim civilian or military government. After the July 1980 elections, when it appeared that the populist Hernán Siles Zuazo would become president, General García Meza led a successful military coup. A succession of military governments unsuccessfully administered the country until October 1982, when they turned the government over to Siles Zuazo. The military had not been able to stabilize the economy nor to provide effective leadership. This, in combination with their involvement in the narcotics industry and rampant corruption, forced them back to the barracks. This was a period of uncertainty for A.I.D.. The disruption of the return to democracy as well as Bolivia's growing drug industry caused the US to to pull back on its foreign assistance program. Indeed, on two occasions funding for new programs was cut off. There was only one new agricultural credit program established during this period.

The new program was the 1979 Department Development Corporation Project (511-T-064) which was to provide financing to the regional development corporations, which in turn would onlend the funds for development projects which could include agriculture, agroindustry, and artisanry. A $13.5 million credit fund was established, including a $10 million A.I.D. loan and $3.5 million in counterpart funds. It was administered by the PL-480 Executive Secretariat. Because of all the problems in the nation, the program faced difficulties in getting off the ground and was suspended between 1982-1983. Later, in 1987, it was extended and reformulated under the Market Town Capital Formation Project. In 1979, PL-480 also made a $3.94 million grant to the PCPA using Title III funds.

Analysis: Political turmoil upset A.I.D. programs in this period. The only major project financed was the Departmental Development Corporation Project, the planning for which had already been underway prior to the difficulties. The previously existing programs continued but encountered problems.

It was in this period that A.I.D.'s relations with the BAB began to sour. In 1979, the BAB decided to incorporate the financially successful and semi-autonomous PCPA into the main operations of the Bank. Ostensibly, this action was taken to give the economically troubled Bank direct access to the PCPA's capital and reflows in order to make loans in its regular portfolio, which had become paralyzed by delinquency. In fact, the BAB used the funds to cover administrative costs and salaries. This did not set well with A.I.D., and in 1981 the Mission was successful in forcing the BAB to again separate the PCPA from the main bank. This lasted until 1983 when the PCPA was again incorporated in the Bank and PCPA funds were again used to meet the institution's payroll. With this action, A.I.D. broke its relations with the Bank. Subsequently, when A.I.D. funds were made available for agricultural credit, BAB has been excluded.

Lending from the A.I.D.-sponsored rediscount lines at the BCB also declined drastically. A combination of a decline in reflows from outstanding loans, capital erosion due to inflation, and political turmoil contributed to the sharp decrease. This period marked the first intervention of the PL-480 Executive Secretariat in credit programs; an activity that would increase substantially in the next few years.

1983-1985

The regime of the Siles Zuazo government (October 1982 to August 1985) was marked by unsuccessful macro-economic policies. Results were considerable political turmoil and hyperinflation. Both hyperinflation and natural disasters were to have important impacts on agricultural credit. An additional factor was the United States' desire to curtail the production of the coca leaf.

The widespread floods and droughts of 1983 caused a number of foreign donors to make emergency agricultural credit available to Bolivia. With the shortage of food, the sales or grants of wheat under PL-480 to Bolivia rose and this provided the Executive Secretariat of the PL-480 program considerably more funds. A.I.D., lacking new centrally funded program funds for agricultural credit, creatively began to work with the GOB and the Executive Secretariat to develop programs to use some of these new funds for agricultural credit, a pattern that would continue through the rest of the 1980s. Other factors in A.I.D.'s decision to work with PL-480 were that: (a) the Mission was not pleased with the BCB's performance in managing the several rediscount funds that had been established in the 1970s, (b) it did not want to work with the BAB, and (c) it wanted to emphasize private institutions.

Three agricultural credit projects were developed by the Mission in conjunction with PL-480 during the 1983-1985 period. The first, in 1984, was to lend support to a new idea for agricultural credit in remote rural communities. This program was proposed by FINCA International which had launched similar programs in several other countries. Under this program, PL-480 made a $b2.8 million loan to FINCA to establish a central revolving credit fund that would be onlent to numerous small rural communities for purposes of establishing a local revolving credit fund in each locale. The communities would then make loans from the fund to their members. When the loans were repaid, some of the proceeds would be used to capitalize the local community fund. Because of inflation the loans were indexed to products, mostly potatoes. Indeed, loans were to be repaid in kind and the community would sell the product to repay the local fund as well as FINCA.

The second project was a 1984 pilot program for a Bank Trust Fund, again financed with PL-480 funds, to make credit available to small- and medium-sized farmers, artisans and agroindustry through the commercial banks. This pilot program was formalized in 1986, and, therefore, will be discussed in the following section.

The third project was a credit component of the 1983 Chapare Regional Development Project (511-T-067) which was designed to create economic alternatives to coca production. The credit component, using PL-480 funds, was to be used to finance alternative economic activities. This project was, and continues to be, a major Mission activity and would be modified on numerous occasions over its life. By 1990 there was $17.5 million committed by the GOB to support credit.

Analysis: This period encompassed the beginning of numerous ad-hoc credit programs in the PL-480 Executive Secretariat. The Secretariat allowed the Mission to get around the lack of centrally funded credit projects. Furthermore, these programs could be easily set up between the Secretariat, A.I.D. and the GOB. As such, they could be used to finance special credit programs by using PL-480 rediscounts or grants to credit institutions. This activity was a major shift away from the more complex centrally-funded BCB and BAB programs of the previous decade. Furthermore, this new modus operandi fit well with the U.S. government's emphasis on helping private institutions. Indeed, the PL-480-A.I.D. connection was to expand greatly in the next period, as is discussed in the following section.

The FINCA program attracted substantial attention because of its design to reach large numbers of small-farmer families with credit. The credit was designed to have low transaction costs as well as the feature of indexing loans to products, which was a means of preventing decapitalization of the fund by inflation, as was happening with most other credit programs. FINCA rapidly disbursed funds, serving 402 communities in 1984 and reaching 24,289 families. However, the program was destined to fail because of structural weaknesses in its design. The first problem was that, because of hyperinflation, the real value of FINCA's central revolving fund declined rapidly before disbursement, thus making the average size loan to each farmer only about $9.00. Second, a large number of the communities obtained FINCA funds but did not establish a community rotating fund. Third, there was no provision to capitalize the FINCA central revolving fund. Fourth, delinquency was high. Fifth, FINCA had a high-cost central administrative structure that need to be subsidized. Sixth, the marketing system that was necessary because of indexing the loans to products, did not function well. When A.I.D. recognized the weaknesses in the program, the Mission divested itself of its interest in the project. In the meantime, FINCA tried to correct its structural weaknesses and continues to operate in Bolivia on a much reduced scale. PL-480 maintained its support of the program on a small scale.

The Chapare Project, a mainline activity in the Mission, has been frought with frustrations, mostly deriving from the inherent nature of trying to develop economic alternatives for the highly profitable coca crop. Therefore, the demand for credit for alternatives was not as high as envisioned. Another complicating factor was the credit delivery system. At first, trust funds were established by the PL-480 executive secretary in two commercial banks. When these institutions did not move the monies, in 1988 it was decided to try to elicit the help of the BAB and FENACRE. However, these institutions were reluctant to participate. Therefore, it was decided that the PL-480 would directly administer the funds. To do this the Executive Secretariat rented the BAB offices in the Chapare and hired former BAB credit agents who had worked in the region to carry out the credit program.

Another problem is that PL-480 is supposed to finance loans using reflows from several other PL-480 administered programs, including the 1986 Emergency Agricultural Credit Program (CAE). In fact, the reflows are insufficient. Nevertheless, the GOB has the responsibility to come up with the funds to meet the $17.5 million obligation.

During this period, hyperinflation raged; the annual rates of price increases were 276, 1,281, and 11,750 percent in 1983, 1984 and 1985, respectively. This situation created serious problems for the financial system. For example, the real value of the BAB's PCPA portfolio dropped to essentially zero. Likewise, the real values of the FRA-1 and FRA-2 BCB rediscount lines dropped considerably. The flagship agricultural credit programs established by A.I.D. in the 1970s were decapitalized by this experience. An important factor contributing to the problem was that the GOB did not change the interest rate structure rapidly enough to compensate for the effects of inflation. Bank deposits declined, banks lent less and made only very short-term loans that they rolled over rapidly. This practice virtually excluded agricultural lending. Banks shifted their assets to investments in real property. The stress on the banking system was tremendous. Several banks were on the verge of failure. However, the GOB was able to keep credit alive by printing money to put into the BCB rediscount lines for agricultural lending. Indeed, the real value of agricultural credit rose 91 percent between 1983 and 1985, much of it channeled through the BAB. There were very significant income transfers to the borrowers of agricultural credit because of the sharp decline in the real value of their obligation over the life of the loan. There was competition for the loans. Indeed, BCB employees who had responsibility for rediscounts soon found they could sell the rediscounts and corruption prevailed in that institution. Given the attractive income transfers as well as hyperinflationary conditions, it is doubtful that many of these funds targeted for agricultural purposes actually were used for that purpose. More likely, a considerable portion was used to purchase real estate or foreign exchange.

<u>1986-1990</u>

When the government of Victor Paz Estenssoro came to power in August 1985 and announced an economic plan to stabilize the economy, there was hope that the Bolivian situation would change. When it became clear by early 1986 that the government had both the will and the ability to make the plan work (in 1986, 1987 and 1988, the annual rates of inflation fell to 276, 15 and 16 percent respectively) foreign donors, especially the World Bank (IBRD), actively worked with the GOB to diagnose structural and institutional problems in the economy and to propose changes. The financial sector was targeted for major changes; the difficulties of the preceding years had clearly demonstrated weaknesses. The BCB was reorganized, a superintendency of banks was established (the IBRD provided technical assistance), plans were made to deepen financial markets through a stock exchange, the Banking Law was scheduled to be rewritten, and four commercial banks were closed.

In this period, the Mission took interest in these activities and used remaining A and A funds to sponsor studies on informal credit markets and to develop a proposal for a project to strengthen financial markets. The proposal would strengthen these markets through: (a) private-sector institution building, (b) policy-oriented research and seminars, (c) a wide-scale training program for bankers, (d) a deposit insurance fund, and (e) development of new capital market instruments. The proposal progressed slowly, but finally, in May 1988, was funded in a reduced form as part of a broader Private Sector Strengthening Project (511-0598). Under this project, there are two specific components to strengthen the financial system, although none is directly related to rural finance. The two components are the improvement of private-sector institutions, and financial sector policy research and analysis in the private sector. Under the first component, there are four subcomponents: (a) the establishment of a training program in the Institute for Development of Businessmen (IDEA), (b) the expansion of services, including policy research, in the Bolivian Bankers' Association (ASOBAN), (c) the strengthening of the National Federation of Credit Unions (FENACRE), and (d) the starting up of a security exchange. Later the FENACRE component was transferred to the A.I.D.-sponsored Micro and Small Enterprise Project (PRODEM).

With respect to projects directly related to rural finance, the Mission continued to work exclusively with the PL-480 Executive Secretariat. Seven major new projects that had agricultural credit components were developed, all emphasizing private-sector financial institutions. However, only one of these projects, the Emergency Agricultural Credit (CAE) was exclusively directed to farm production; the others also financed activities such as agroindustry or non-traditional exports. In most cases, Title I or Title III funds were used; only three projects had central funding components.

The main project was the Bank Trust Funds program, which was developed in 1986 after a 1984 pilot program was judged to be successful. In this project, PL-480 utilized Title I and III monies to rediscount funds to private-sector banks for purposes of financing loans extended to small-and medium-sized farmers for the purposes of agriculture and livestock production and to enterprises for agroindustry or artisanry. In an attempt to ensure that the farmers were served and that the loans did not go mostly to industry, at least 60 percent of the funds were targeted for farm production. The program was operated as a set of small trust funds. Under this arrangement, each bank would submit an initial list of projects to be financed. Once the list was approved by the Executive Secretariat, the corresponding funds were placed in the bank as a trust fund; the bank would hold them for five years as long as it continued to use the reflows for the targeted purposes.

A second major activity was the 511-0589 Private Agricultural Producers Associations Project (PAPO) which was established in 1986. The main purpose of this project was to strengthen these associations in order that they might provide better services to their members. The project had two credit components. The first was financed by a $5 million commitment of local currency contributed by the GOB. These funds were placed with the PL-480 Executive Secretariat for rediscounting to the private-sector banks for extending credit to the associations for purposes of strengthening those organizations. The second was a commitment by PL-480 to rediscount loans made by banks to members of the associations for specified production purposes. The current major thrust under PAPO is to provide financing to members of the National Association of Oilseed Producers (ANAPO) to grow wheat in the Eastern lowlands as a substitute for imports of that cereal.

A third major credit activity was the 511-071 Market Town Capital Formation Project (FOCAS). This project, which was initiated in 1987, was a continuation of the above-described Department Development Corporation Project (DDC) which was initiated in 1979.

Under the FOCAS project there is a credit component of $38.5 million which is to be used to increase the level of productive private-sector investment in rural and semi-urban areas. The Executive Secretariat administers the funds and provides financing to the Credit Financial Units (UCFs) in the eight departmental development corporations. The UCFs then rediscount the funds to the private-sector banks for extending credit for the designated purposes. Most of the credit is directed to industry; little is used for farm production. The reflows to the UCFs from these loans are not returned to PL-480; they remain with the UCF as a grant.

A fourth major activity was the 1988 Export Promotion Project (511-0585). This project has a $10.1 million credit component of which $8 million comes from an A.I.D. grant and the remainder from the GOB. These funds were used to set up a revolving credit fund to be used by the PL-480 Executive Secretariat to rediscount to private-sector banks for lending for pre-and-post-embarkation purposes in non-traditional exports. Agricultural products are eligible, as are other classes of exports.

A fifth major activity was the 1986 Emergency Agricultural Credit Project (CAE) financed by a $10 million centrally-funded A.I.D. grant under Project 511-0591. Under this special program the funds were placed with the Executive Secretariat to rediscount to private-sector financial institutions for credit extended to small- and medium-sized farmers during the 1986-87 production cycle. As with most other programs, the funds were placed with the several banks and FENACRE in a trust fund, this time for a one-year period. When the reflows were returned to the PL-480 they were to be used for other trust fund programs, such as those with the banks and the Chapare Project.

A sixth project was with FENACRE. Under this umbrella project, which was set up in 1986, the Executive Secretariat makes funds available to FENACRE from several different sources to finance different programs. As with the banks, the funds are typically placed in a trust in order that FENACRE can onlend them to its affiliates. This arrangement encompasses the PL-480's programs for Integral Cooperative Development Project (formerly CROFOC), a Small-Farmer Credit Program and the National Wheat Production Program.

Finally, the seventh and very small-scale project, was the $420,000 Credit for Housing and Family Needs Program in the National Savings and Loan Housing Bank (CACEN). Established in 1986, this program was to allow rural families in the Lake Titicaca region to reestablish themselves after serious floods. In this case, PL-480 used Title I funds to make a loan to CACEN for 25 years, which was to be used by that institution to onlend for home construction, family needs and agricultural production.

By late 1989, the Mission had become disenchanted with many of its PL-480 credit programs. The fundamental problem was brought to light by an evaluation of the CAE Project which had shown that the funds had not been used for the intended purposes. Furthermore, the level of delinquency was high so that the expected reflows were not available to provide the programmed funding for the Chapare Project. Similar results were experienced in the Bank Trust Fund Program. These results were not satisfactory to A.I.D. nor to the PL-480. As a consequence, as they move into the 1990s, the Mission and the Executive Secretariat have agreed to substantially reduce the role of the PL-480 as a second-story credit institution.

Analysis: In August, 1985, as part of its stabilization package, the Paz Estenssoro government liberalized interest rates, allowing them to be mostly determined by market forces. This was an important improvement in the financial system. However, there was a weakness. It was believed that the market rates were artificially high, due to the high administrative costs of the generally inefficient banks. Therefore, as an incentive to stimulate production, the Central Bank established a "development interest rate" which was to be used on loans made with its development-oriented rediscount lines. The rate was arbitrarily set at 13 percent, and it has remained at that level since that time. Consequently, this has been and still is the standard rate for virtually all formal financial market agricultural credit. It was adopted by the BAB and the PL-480. A.I.D. and other international assistance agencies accepted this rate for their programs. Given that this rate was, and continues to be, considerably below the market-determined rate for other bank loans, it is certain the many persons would seek these loans to gain the implicit income transfers. This leads to considerable credit diversion, and, consequently, overstates the importance of the volume of lending for agricultural purposes.

In this period, the Mission moved away from mostly providing rural credit for farmer production. Indeed, the scope of its activity was expanded to include more financing for agroindustry, artisanry, producers associations, non-traditional exports, and alternatives for coca production. As this occurred, the different credit projects became more focused and targeted.

The Mission continued to rely on the PL-480 Executive Secretariat as the second-story institutional vehicle to provide credit. As mentioned above, given the lack of central funding, this was a way to use the more plentiful local currency for credit objectives. Moreover, it was relatively easy to establish new projects within the PL-480 framework. Targeting was a central feature to direct credit to specific projects. In mid-1987, an evaluation of the PL-480 program reported that the Executive Secretariat managed 29 different credit programs related to agriculture. Indeed, up to that time about one-half of the Executive Secretariat's total disbursements of $77 million, since it was founded in 1978, had gone for credit. There was no doubt the PL-480 Executive Secretariat had become an important source of credit in Bolivia. However, relatively speaking, it managed a much smaller volume of agricultural credit than did the BCB.

In this period, the Mission lacked a master plan for rural finance. There was no project that dealt with mobilizing deposits nor was there a central thrust to rural credit, with the exception of excluding the BAB and the BCB, or stated another way, relying exclusively on the private sector financial institutions. Thus, Mission credit programs were driven by the numerous specific projects that had credit components rather than in the context of an overall financial sector or agricultural credit strategy. All new projects were placed with the PL-480. Indeed, the Executive Secretariat provided a handy institutional vehicle to set up numerous programs relatively easily. Moreover, the PL-480 was attractive because it was able to disburse funds with little red tape and quickly.

However, the chickens later came home to roost when it was realized that many of the funds were not being used for the intended purposes and that there was extensive loan delinquency. These outcomes should not have been surprising. Not only was there the above-described problem with a concessionary interest rate, but also there were two significant structural weaknesses in using the PL-480 as a second-story institution. First, PL-480 was not technically part of the financial system. In contrast to the BCB, the Executive Secretariat had no lever to hold over the heads of the banks to collect on their loans. The PL-480 held no funds for the banks. In contrast, the BCB would take funds from the commercial banks' legal reserves if they did not repay the Central Bank their obligations on rediscounts. Therefore, the banks could delay on repaying their obligations and the Executive Secretariat lacked the immediate wherewithal to collect.

Second, there was the problem with targeting. Directed credit programs require close monitoring and control to ensure partially that the borrowed funds are used for the stated objective. The Executive Secretariat did not monitor closely the actual use of funds under the trust funds. Consequently, the banks and final borrowers compliance in using the funds for the targeted objectives was lacking. Often, the credit did not go for the intended objectives.

These structural weaknesses created problems for A.I.D. and the Executive Secretariat because they did not allow the credit programs to satisfactorily meet their intended objectives. However, it should be pointed out that this outcome was predictable. Indeed, it only reflects the inherent problems in excessive targeting and reliance on a second-story institution that has little clout over its borrowers.

The CAE Project is a special case, that illustrates another aspect of problems that can arise in using foreign assistance for credit. These funds were made available hurriedly to Bolivia because, as the end of the fiscal year was approaching, there were unspent funds. Bolivia was asked to find a way to use them. The quickest way was to give a grant to the GOB for a one-shot credit program. Unfortunately, this type of program often leads to rapid disbursement without careful evaluation of loan applications. Moreover, borrowers may view the credit as a grant and not be inclined to repay. These characteristics, in combination with the concessionary interest rate, spell doom for repayment.

FENACRE was the major beneficiary of the CAE program, financing thousands of very small loans. It should be pointed out that the PL-480 was the source of funds that kept FENACRE alive. Without the PL-480 rediscounts, the Federation would have had very few loanable funds. This dependency points out the financial weakness of this institution.

Over the late 1980s, the flow of agricultural credit from the banking system declined. In 1989, the real amount of funds disbursed declined to about 60 percent of the level in 1985. The participation of BAB also declined as that Bank's access to BCB rediscounts was drastically reduced. It should be recalled, however, that 1985 was a peak year for agricultural credit because the Siles Zuazo government had turned on the printing presses to finance large-sized BCB rediscount lines.

The Strengthening Financial Markets (SFM) component of the Strengthening Private-Sector Project was an important step for the Mission, albeit it took considerable time to launch the project. Since the hyperinflation, it has become increasingly clear that the financial system needed restructuring. A.I.D. is taking the right step in trying to resolve the deficiencies in financial intermediation instead of just pumping in more funds. The project, however, has a shortcoming because it does not deal directly with rural finance, although it would be expected that the rural financial institutions would benefit.

The importance that the Mission has assigned to the SFM Project is evidenced in their 1991-1992 Action Plan. The plan contains a specific component (one of six major components in the plan) to increase and broaden A.I.D.'s level of activity in strengthening financial markets beginning in the next fiscal year. At present, the Mission plans to work with the public entities (the BCB and the Superintendency of Banks) that control regulatory policy. To help in their planning for this additional effort, the Mission will undertake a financial sector assessment in 1990. One component of the assessment will deal with rural financial markets. This component, if properly done, should help the Mission develop a sound strategy for strengthening those institutions that serve rural areas as well as the policy environment in which they operate.

ASSISTANCE BY OTHER INTERNATIONAL DONORS

Between 1966 and 1978, A.I.D. was the principal provider of foreign assistance for agricultural credit, accounting for nearly three-fifths of the total funds made available. Their relative importance was due to the Mission's big effort in financing the several BCB rediscount lines and the several small-farmer programs, especially the PCPA in the BAB.

In the 1970s the World Bank had several projects. In 1975, it established a $12.5 million (all figures in this section include loan, grant and counterpart funds) Agricultural and Livestock Development Fund (ALDP) in the BAB. Between 1976 and 1979 it sponsored three integrated rural development programs in the Altiplano: Ingavi, Ulla Ulla and Omasuyos-Los Andes. Each had a credit component; there was a total of $12.8 million committed. Likewise, the BAB administered these projects.

Simultaneously, the Inter-American Development Bank (IDB) was sponsoring four projects that were targeted for specific production in defined geographic regions. The total financing was $29.5 million. In 1969, they financed a Livestock Development Fund for rediscounts at the BCB. It was augmented in 1978; the total size was $13 million. In 1976, the Pork Production and Development Project in Chuquisaca was developed with financing of a $1.9 million credit line that was run through the Chuquisaca Department Development Corporation. In 1979, the IDB established the Fruit-Dairy Development Project for Cochabamba in the amount of $5.4 million, and the Irrigation Development Project in the Bolivian Chaco for $17.8 million. The BAB administered both of these projects.

The World Bank and IDB programs were oriented to small-and medium-sized farmers. The funds were made available to Bolivia on soft terms and all utilized the prevailing concessionary development interest rate for borrowers.

During the 1978-1982 period no new major foreign assistance programs for agricultural credit were established. It was only after the Siles Zuazo government came to power that assistance was renewed. In 1983 the IDB launched a large program with a $32 million loan for the Livestock and Industry rediscount line with the BCB. This was to be used for financing small-farmer livestock and agricultural production as part of their Global Agriculture Program, Phase I. This line was the most important source of financing for agricultural credit in the nation for both the BAB and the commercial banks in 1984 and has continued to be important since then. In 1987, the IDB extended this program with a follow-up loan of $100 million for the Global Agriculture Program, Phase II.

In 1990, the Inter-American Development Bank had plans for four new projects with rural credit components. In that same year, the Bank planned to initiate two programs: (a) the Global Agriculture Program, Phase III, which would place $51.2 million in a BCB rediscount line, and (b) the Chuquisaca Pork Production Program, Phase II, for $20 million. For 1992 they have programmed a Vegetable Sanitation Program for $10 million and a Livestock Sanitation Program for Meat Exports for $10 million.)

Meanwhile, the World Bank did not have any new agriculture credit program. However, in 1989 it began the planning for the Lowlands Project for development in the Eastern lowlands. Current plans call for establishing a $30 million BCB rediscount line to extend loans for production purposes. Agricultural products, such as soybeans, are important activities in the plans for economic development in this region.

In addition to the funds made available from the IDB and the World Bank, there are several smaller bilateral programs, mostly handled by the BAB. For a number of years the Bank has received annual grants from the Japanese, Dutch, and German governments to contribute to the Bank's capital. In addition, the BAB has obtained small loans from FIDA for credits in the departments of Chuquisaca and Potosí. As was the case with A.I.D., the financing for the credit programs from these other international donors consisted of loans with soft terms or small grants. The borrowers' interest rates followed the policies established by the GOB.

It is clear that foreign assistance has been a very important source for agricultural credit in Bolivia. In the 1970's, A.I.D. was the predominant lender. With the political turmoil in the early 1980's, assistance for new programs from all major donors was virtually cut off. When the democratically-elected civilian governments came to power, beginning in 1982, the flows began anew. Since 1983, the IDB has taken the leadership by providing large amounts of agricultural credit through its Global Agricultural Programs, Phases I-III which have placed large sums as rediscount lines with the BCB. In 1989, IDB rediscount lines accounted for almost two-thirds of the total BCB rediscounts for purposes of agricultural credit. It is noteworthy that none of these programs stress rural financial markets; rather they continue to deal with only one side of these markets, credit, to the neglect of deposit mobilization and viable financial intermediation.

A CRITIQUE OF A.I.D.'S RURAL FINANCE PROGRAMS IN BOLIVIA

The Criteria

This section addresses the question, how does A.I.D.'s rural finance efforts in Bolivia line up with policy criteria set forth in the 1988 A.I.D. Policy Paper, Financial Markets Development? The Paper charted a new course for the Agency's activities in financial markets. The reader is referred to that document for detail.

The Case of Bolivia

The Mission's agricultural credit programs in the 1970s fall into the category of projects that the Paper criticizes. Most projects were designed only as infusions of funds and did not have many provisions for building strong viable financial institutions nor developing financial markets. The desire to compartmentalize funds by project created an excessive number of BCB rediscount lines. The multiple programs for small-farmer credit diluted the Mission's attempts to serve this clientele and in the haste to disburse funds, insufficient time and effort were allocated to institution building.

The interest rates charged to the final borrower were highly concessionary and corresponded to the "development rate" established by the government. In this period, the GOB had a fixed interest rate structure that was seldom modified. The difference between the effective commercial loan rate for banks and the development rate charged by the BAB ranged from 12 to 15 interest points over the period, i.e., about a 100 percent difference. There was discussion within the Mission on interest rate policy, but it was decided not to press the government on this issue; rather, emphasis was placed on making the spread on the BCB rediscount lines more attractive. It was clear that although the Mission had begun to understand the interest rate issue, it was not sufficiently convinced of its importance to strongly argue with the government for a change nor to use its foreign assistance program as a lever to force a change in the structure.

During the 1979-1982 period the Mission was forced to place its assistance in a holding pattern. New credit programs were not forthcoming and attention was directed to working with projects already in place. There were plans to start a pilot deposit mobilization effort in the BAB but this was scuttled when the Mission broke relations with the BAB. A.I.D. tried to foster policy dialogue with representatives of different financial institutions. In early 1982, the Mission sponsored a national rural financial markets seminar in which international experts were invited to present talks on interest rates, savings mobilization, and transactions costs. Although, this perked interest, it did not have any immediate influence on policy and there was little Mission follow through on this initiative.

After an elected government assumed power in late 1982, the Mission's activities again increased. However, there were no plans for new rural finance programs, with the exception of the special case of the Chapare Project to finance substitutes for coca production. In this period, there was an effort to maintain the existing programs. However, there were problems. The relationships with the BAB continued to be sour and the PCPA was no longer a favorite Mission project. The BCB rediscount lines had problems, as did the CROFOC.

The Mission, like almost everyone else, was quickly overwhelmed by hyperinflation. Most existing credit projects did not have the means to protect the real value of funds; a situation which was exacerbated by the government's dedollarization policy. The financial system, accustomed to fixed interest rates, was not flexible enough to respond by rapidly adjusting real rates. The Mission, for lack of a financial markets strategy, was not adequately prepared to deal with its own programs nor with the government. In rural finance, the only new program was the small-scale FINCA project, with which the Mission became enamored because it used PL-480 funds, was designed to reach numerous small farmers, and had an inflation-proof indexing feature.

It was at the end of this period that the Mission, in recognition of the need to provide the government with informed research for macro-economic policy making, established the Unit for Analysis of Economic Policies (UDAPE) which provided information and advice to key ministries. Furthermore, it was at this time that the Mission began to work with the PL-480 Executive Secretariat as a second-story credit institution. An important factor in this initiative was the Mission's mandate to work with the private-sector financial institutions rather than government entities, such as the BAB and the BCB.

Indeed, the Mission strongly contemplated the possibilities of trying to establish another second-story bank to get around the difficulties of working with the BCB, which by now was uncontrollable and rife with corruption; PL-480 was a candidate and served in this capacity, at least for the time being.

Beginning in late 1985, the success of the Paz Estenssoro government's economic stabilization plan called Bolivia to the attention of the world. Consequently, in 1986 Bolivia suddenly had many offers of fresh foreign assistance. The World Bank took the primary role of helping the country diagnose the necessary structural and policy changes. It was clear from their analysis that the financial sector badly needed reforms, beginning with a reorganization of the Central Bank and the establishment of a Superintendency of Banks.

The World Bank worked with the GOB on these two institutions while A.I.D. did some research on informal credit markets and developed a proposal for a project for strengthening financial markets. This project took a long time to unfold and was not funded until 1988, and, only then in a watered-down form as a component of a project to strengthen the private sector. To its credit, this project provides for training bankers, strengthening the Bankers Association (ASOBAN), and establishing a securities exchange. The slow and less ambitious response on the part of the A.I.D. was undoubtedly influenced by the lack of a coherent financial market strategy within the Mission.

The Mission had little influence with the monetary authorities; it was not working closely with the BCB and the Superintendency of Banks was just getting started. It tried to work with the ASOBAN, but this relationship has not borne much fruit. The interest rate structure was partially liberalized and made subject to market forces. However, it was the GOB itself that made this decision as part of its 1985 stabilization package; the international donors had little to do with this action. Nevertheless, this policy change was a key to reform in the financial system. However, as described above, the concept of a special development interest rate was maintained, and, because it is considerably below the bank market-determined rate, there continue to be distortions in the system. A.I.D. and other international donors have accepted this rate for their credit programs.

The Mission's rural finance activities were likewise the victims of the lack of a financial market strategy. All projects were credit oriented, most were relatively small scale, none had deposit mobilization components, and all continued to be tied to the PL-480 Executive Secretariat. This system led to a plethora of targeted projects. Moreover, the projects were being run through an institution that was not even part of the formal financial system.

As the Mission moves into the 1990s, there appears to be a commitment to expand its efforts to strengthen financial markets through the means of expanding its SFM Project. Furthermore, the Mission has made the decision to discontinue using the PL-480 Executive Secretariat as a source of loans for new projects and even reduce the scale of some of the existing projects now managed by that institution.

There is no Mission master plan for rural finance. There is some interest in the Mission in wanting to help small farmers through viable financial institutions, but how to do this has not been carefully thought out. It is clear that the Mission needs to develop a formalized coherent strategy for what it should be doing, or not be doing, in financial markets, in general, and rural finance, in specific. At this point, the only major foreign assistance program for rural finance is through the IDB. Unfortunately, that Bank's exclusively credit-oriented programs continue to fall into the pattern that is criticized in the A.I.D. Policy Paper.

A.I.D. SPONSORED RURAL FINANCE PROJECTS IN GUATEMALA

by
Robert C. Vogel

INTRODUCTION

Most of the information in this case study was assembled while the author was a consultant working on rural finance problems in Guatemala with either the Inter-American Development Bank or the Agency for International Development. Details on specific rural finance projects were drawn from A.I.D. Mission files or from data banks in A.I.D. Washington.

HISTORICAL BACKGROUND

In 1929 the Credito Hipotecario Nacional de Guatemala was formed to supply agricultural loans. An additional agricultural lending agency, the Instituto de Fomento de la Produccion was founded in 1948 and in 1953 the Banco Nacional Agrario (BNA) was established to provide still another source of loans in rural areas. A.I.D.'s first efforts in rural finance in Guatemala began in 1955 in support of a colonization effort. Later, U.S. funds and technicians were used to develop a supervised credit program in BNA (Rice, 1973). Until 1962 most of A.I.D.'s rural finance efforts were attached to BNA. Subsequently, the supervised credit program was absorbed by a new bilateral servicio, SCICAS, that reported to the Ministry of Agriculture. In 1963, the Inter-American Development Bank took over the primary funding of the supervised credit program.

Apart from supervised credit, A.I.D. also provided substantial funding for loans to rubber farmers in 1959. In the 1960s A.I.D. began to support two lines of cooperative development that involved on-lending to farmers. In 1964 A.I.D. support was given to credit unions and later A.I.D. also supported multi-purpose agricultural cooperatives that all on-lent to farmers. In the early 1970s A.I.D. provided substantial support to BANDESA, the successor to SCICAS. This again brought A.I.D. into the business of promoting supervised credit. From the early 1970s until now, A.I.D. has provided funding for rural finance through nine projects amounting to a total of about $80 million. A synopsis of eight of the most recent of these projects follows.

RECENT RURAL FINANCE PROJECTS

Small Farmer Coffee Improvement[15]

The main objective of the Small Farmer Coffee Improvement Project is to increase the incomes of small-scale coffee farmers through increasing their production, productivity and product quality. This is to be achieved through a combination of improved technical assistance and access to credit from formal financial institutions (i.e., BANDESA and participating commercial banks). Lack of access to credit, especially longer-term credit, is identified as a key constraint that prevents small-scale farmers from undertaking investments that could increase their production, productivity and product quality and thereby achieve the objectives of the project. To capitalize the credit component of the project, USAID is to provide $300,000 in foreign exchange and the equivalent of $1,200,000 in local currency, while the Guatemalan Government is to contribute the equivalent of $9,250,000 from PL 480 funds during the first five years of the project.

Loans to farmers are to carry market rates of interest, initially 16 percent (the maximum rate permitted on commercial bank loans at the time the project was initiated) with provisions for adjustments to ensure market rates throughout the life of the project. However, there is no specification of how such adjustments are to be determined or implemented, as, for example, under the current situation of no controls over interest rates, and whether such adjustments would apply to already outstanding loans--an important consideration since loan terms are up to seven years with up to three years of grace on repayment of principal. Project funds are to provide loans to farmers adequate to finance the renovation of one manzana (1.6 acres) of old low-yielding coffee over a two year period followed by two years of production credit. In addition, the Guatemalan Government and the participating commercial banks are to agree to continue to provide annual production credit to project beneficiaries after their fourth year of being financed under the project. To be eligible to participate in the project, a farmer must have no more than fifteen manzanas of land with at least two manzanas planted in coffee producing at relatively low yields, and he must also have the capacity to absorb the loss of income during the renovation period and to meet the obligations imposed by the project loan.[16] In addition, to participate a farmer must be a member of a coffee cooperative or of one of the groups formed by ANACAFE, although neither the cooperatives nor ANACAFE will be lenders under the project.

---

[15]USAID/Guatemala, Small Farmer Coffee Improvement Project Paper, 1989.

[16]Credit under the project is also to be made available for nurseries to produce high-yielding and disease-resistant seedlings and to construct or upgrade coffee processing facilities oriented toward small farmers.

Project loans are to be provided through trust funds placed in participating banks, as this was judged the only way to circumvent legally-imposed collateral requirements and to reduce to acceptable levels the risks perceived by commercial banks in lending to small-scale coffee farmers. Incentives for effective client selection, credit supervision and loan collection are to be maintained by the fact that participating banks will only receive income when interest is actually collected (although participating banks will still have far greater incentives to attempt to assure the collection of loans for which principal as well as interest is at risk). Interest earned on project loans (initially 16 percent) is to be divided as follows: Ministry of Finance, 0.5 percent; participating bank, 6.0 percent; ANACAFE, 5 percent; and creation of reserves for problem loans, 4.5 percent. ANACAFE is not only to take the lead in providing technical assistance to project beneficiaries but is also to play a major role in identifying borrowers, preparing loan documents, supervising credit use and collecting loans. The use of trust funds and the role of ANACAFE are together to overcome the two main barriers that have been identified as preventing banks from lending to small-scale farmers: high costs and high risks. Moveover, banks are said to be less reluctant to lend to coffee producers because of relatively secure markets and foreign exchange earnings, together with the existing involvement of some banks in coffee processing and marketing. Participating banks are thus supposed to learn through project lending that it can be less costly and risky to lend to small-scale coffee farmers than they had initially feared--in addition to their commitment to supply short-term production credit to project beneficiaries in later years.

In the design of the credit component of the project considerable attention has been paid to collaboration between ANACAFE and the participating banks that is supposed to allow these banks to reduce costs and risks and thereby remove the main impediments to lending to small-scale producers. However, shared responsibility for client selection and supervision has often led to serious loan recovery problems in credit projects. In addition to the general problem that when two entities are jointly in charge of an activity, no one is in fact in charge, the emphasis on timely credit delivery may make it difficult for participating banks to review applicants adequately or to deny loans to marginal applicants. Moreover, in spite of the emphasis in project design on enhancing credit delivery mechanisms and improving the operational efficiency of public and private lending programs, it is unclear what is to be done beyond the involvement of ANACAFE in the lending process. This orientation is reflected in the focus of proposed project evaluation on the impact of the project on the farmer beneficiaries rather than on improvements in the efficiency of participating banks and their ability to sustain lending to small-scale producers. In addition, the reporting requirements under the project that are seen as necessary for adequate monitoring and evaluation may impose significant administrative costs on participating banks.

Although the project description focuses on the barriers that have inhibited bank lending to small-scale coffee producers, project design focuses primarily on channeling credit to intended beneficiaries, so that the project ultimately to be implemented has become highly similar to the types of traditional directed credit projects that have been criticized in

A.I.D.'s policy paper on Financial Markets Development and elsewhere. In spite of the efforts to induce participation in the project, it remains unclear that the capabilities and incentives for commercial banks to lend to small-scale producers will be permanently enhanced after project funds have been exhausted. Commercial banks may or may not find small-scale coffee producers to be good clients depending on the success of the collaboration with ANACAFE which, as noted above, may face difficulties. One alternative would have been to focus more directly on reducing lender costs and risks rather than shifting them to ANACAFE and trust funds. Another alternative would be to make greater use of informal sources of credit that already serve many small-scale coffee producers. Although these sources are often seen to be high cost and exploitive of small farmers, it may be possible to enhance competition among them by increasing their access to credit--which may be less difficult than enhancing the access of small farmers to formal loans directly. Attention might be paid under the project to marketing and processing agents, in particular, as potential sources of credit for small-scale coffee producers. Moreover, inadequate coffee marketing and processing arrangements have already been identified as barriers to increased producer incomes, and lower producer incomes will undoubtedly have a negative impact on the recovery of loans made under the project.

Agribusiness Development[17]

The objectives of the Agribusiness Development Project are to increase rural family incomes and exports of non-traditional crops through improved marketing opportunities to be achieved mainly by supporting agribusiness enterprises in rural areas. The project, which began in 1984, has three main components. The Non-Traditional Exporters Guild is to be supported through a grant of US$1 million to strengthen its export and investment promotion activities and to create a market information system. A grant of US$1.3 million has been provided for cooperative strengthening, especially in the areas of handling and marketing fruits and vegetables. The largest component is the credit component which includes a grant of US$0.6 million to the Central Bank of Guatemala for technical assistance and training to enhance the ability of participating financial institutions (including the Central Bank itself) to provide credit services, and a loan of US$9.5 million to the Central Bank, of which US$7.3 million is for on-lending by participating banks and finance companies, US$1.5 million is for on-lending by BANDESA to cooperatives, and US$0.7 million is for technical assistance in the development of rural agribusiness enterprises. Only limited progress has been made in improving credit analysis at the level of the participating financial intermediaries and in facilitating credit operations at the level of the Central Bank, as little of the training and technical assistance funds has been used. The following discussion of the project and the evaluation of the project carried out in late 1987 focuses primarily on the reasons for the deficiencies in the credit component, as reflected in the slow disbursements, and the recommendations to overcome these deficiencies.

---

[17]Arthur Young, Agribusiness Development Project: Mid-Term Evaluation, 1987

An evaluation of the project presents a variety of reasons for the slowness of disbursements under the credit component of the project. Many potential borrowers are said to lack adequate collateral (for long term loans, banking law requires real estate valued at 200 percent of the amount of the loan), but this often appears to be an excuse rather than a reason as banks are able to find ways around this requirement when they are particularly interested in making a loan. Eligibility criteria for access to A.I.D. loans funds at the Central Bank were also initially quite restrictive as, for example, agricultural processors seeking loans under the project had to buy more than half their crop inputs from small farmers. However, these criteria were later modified so that eligible borrowers had only to satisfy one from among a number of criteria, such as generating foreign exchange, creating employment, processing non-traditional products, or transferring technology to benefit small farmers. In any case, the main reason for slow disbursement seems to have been a lack of attractiveness of the project's credit line relative to more easily available alternatives, together with a lower demand for credit for export oriented agribusinesses activities than had originally been anticipated. On one hand, domestic liquidity was much less tight than when the project was designed, and a number competing credit lines became available from other donor agencies and foreign governments. On the other hand, credit demand seems to have been overestimated because of a failure to analyze adequately the markets for non-traditional agricultural exports--which were small, not growing and subject to potentially strong competition from neighboring countries.

In short, the credit component of the Agribusiness Development Project reflects many of the typical features--and problems--of directed credit programs in general. There often tends to be an underlying assumption that cheap and abundant credit can overcome shortcomings in other markets, such as a lack of adequate demand for non-traditional exports (perhaps stemming from an overvalued exchange rate). Moreover, attempts to target credit to specific beneficiaries and activities lead to the kinds of problems with eligibility criteria noted above, along with other restrictions such as limits on the proportion of working capital that can be financed relative to investments in plant and equipment and restrictions that borrowers not use project loans to refinance outstanding debts. In addition, a strong tendency arises for the Central Bank to take on roles in processing loan applications that delay and substantially increase the costs of lending under directed credit projects. In particular, insistence by the Central Bank on feasibility studies and other detailed information, which the Central Bank subsequently evaluates, reflects the Central Bank's view that it has important responsibilities in the allocation of project funds (and are not simply due to traditions of bureaucratic conservatism as the evaluation tends to emphasize). On the other hand, however, borrowers and financial intermediaries not only complain of costs and delays but also express fears of submitting confidential information to the Central Bank and even suggest that excessive requirements may reflect an adversarial relationship. Duplication--both of effort and responsibility--is central not only to the costs and delays but also to the lack of trust among the various parties. Moreover, duplication and the resulting lack of clear responsibility can later cause serious loan recovery problems (something that has not yet arisen in this project) as each party tries to assign the responsibility for problem loans to one of the other parties.

As the evaluation points out, A.I.D.'s efforts have led to greater flexibility in Central Bank operations, and efforts have also been made to enhance communication with financial intermediaries and potential borrowers about the project and especially about improvements in the operation of the credit component. Nonetheless, too much emphasis on promoting the project's credit line, as opposed simply to increasing the availability of information, can also create subsequent problems for loan recovery as beneficiaries become more interested in the potential grant aspects of the loan rather than the loan itself. In addition, the evaluation's recommendation to increase spreads for financial intermediaries, while compensating for the high operating costs of the project's credit line relative to alternative sources of funds, does not deal with the basic reasons for these high costs, and especially for the duplication of effort and responsibility. In fact, the spread on project funds of 5.5 percent is already higher than the spread on the Central Bank's regular rediscount lines and does not allow enough for the capitalization of the credit fund (4.5 percent) to prevent its erosion by inflation, nor enough for the Central Bank (1 percent) to cover its administrative expenses, as long as the rate of interest is maintained at only 14 percent for project beneficiaries. Moreover, other recommendations in the evaluation, such as creating trust funds or loan guarantee mechanisms to speed disbursement of the project's credit funds, not only fail to address the basic reasons for slow disbursement but also run the risk of adding to the distortions in Guatemala's rural financial markets rather than contributing to reform and liberalization. A recommendation that could instead have received greater emphasis is more rapid use of grant funds for training and technical assistance to improve the credit operations of the Central Bank and participating intermediaries--after first investigating why these funds have been so slow to disburse.

BANDESA's role in the project's credit component is to provide loans for cooperatives to support processing and marketing activities, especially for non-traditional exports, in coordination with technical assistance being provided to cooperatives under the project. However, BANDESA's project lending was also very small at the time of the evaluation--just one loan from the project's credit line and two loans from competing sources to cooperatives receiving technical assistance under the project. BANDESA's limited participation in project lending is attributed in part, as in the case of private-sector financial institutions, to Central Bank delays, high administrative costs, low spreads on project funds relative to alternative sources, and a variety of eligibility requirements including the need for the borrower to be a legal entity, to provide guarantees in the form of land, to submit to joint and several liability and to provide at least 25 percent of project costs. In addition, maximum loan size is low for cooperatives, many cooperatives are delinquent on prior BANDESA loans, and BANDESA is said to focus heavily on the political benefits of its lending--which are said to be few because of the small size and low visibility of the project's cooperative credit component. BANDESA has also been criticized frequently for its excessive centralization and its lack of adequate field personnel. Although A.I.D. has made significant efforts to improve BANDESA's operations, especially its credit delivery system, BANDESA still has numerous shortcomings, including high operating costs, severe loan recovery problems, lack of appropriate performance criteria and incentives for employees, unqualified and unproductive personnel, and political intrusions into its internal affairs.

Until substantial progress in made in these areas, and especially in assuring BANDESA's independence from inappropriate external interference, gains from support provided by donor agencies are likely to be limited and transitory.[18]

Agricultural Production and Marketing[19]

The Agricultural Production and Marketing Project is a cooperative agreement with the American Institute for Free Labor Development to strengthen the capacity of Guatemala's National Labor Union Confederation and its farm union affiliates to provide agricultural services to members. The project is funded by grants of approximately US$320,000 and Q3,100,000 for a three year period from mid 1987 through mid 1990. Among the project's several components is a credit component, funded by a grant of Q875,000, to provide short-term loans to small-scale producers of corn and sesame. At the time of the evaluation at the end of 1988, approximately 800 farmers had received loans totaling about Q125,000, but in value terms only about 40 percent of these loans had been repaid on time. However, because the date of the evaluation was just after the due date for loan repayment, it was still too soon to know if loan repayment problems will plague this project as they have so many similar projects. Moreover, little information is provided in the evaluation about the terms and conditions of project loans, so that it is difficult to make any predictions about the future course of loan recovery or other aspects of the credit component of the project.

Highlands Agricultural Development[20]

The objective of the Highland Agricultural Development Project is to increase agricultural productivity, especially among the rural poor. The first phase of the project had a rural road maintenance component and a natural resource component consisting in small-scale irrigation, soil conservation and reforestation. In the second phase a variety of technical and administrative services were added to support project beneficiaries on a more comprehensive basis, with particular focus on credit, marketing, research and increased technical assistance. The project was initially to be funded with a loan from A.I.D. of

---

[18]In 1989, the project was amended to add US$ 1 million to grant funds for the cooperative strengthening component of the project. In addition, because of continuing slow disbursement from BANDESA's credit line for lending to cooperatives, approximately US$ 0.6 million of these loan funds was transferred to the credit line for lending by banks and finance company which, subsequent to the evaluation of the project, had disbursed more rapidly.

[19]Consultores Agroindustriales, Report on the Mid-Term Evaluation of the Agricultural Production and Marketing Project, 1989.

[20]Associates in Rural Development, Inc., Highlands Agricultural Development Project: Midterm Evaluation, 1987.

US$7.5 million, a grant of US$1.5 million, and counterpart funds from the Guatemalan Government equivalent to approximately US$5.8 million, and this was subsequently increased through a series of loan and grant amendments to the original project. With the initiation of the second stage in 1988, a major addition was made to the project of US$15 million in A.I.D. grant funds, along with the equivalent of approximately US$ 12.8 million in counterpart funds from the Guatemalan Government. The following discussion is based primarily on the evaluation of the project carried out late in 1987 and focuses on the credit aspects which, consisting in credit for irrigation facilities, fall within the irrigation component of the project.

The interest rate on loans to project beneficiaries was initially set at 6 percent but had been increased gradually to 10 percent as of late 1987. However, even this rate is well below the rate on commercial bank agricultural loans, especially if the effective rate rather than the stated rate is considered, as well as being below the rates that BANDESA, the project lender, charges on most of its other loans. In many recent years, moreover, the rate has been substantially below the rate of inflation so that the fund for project lending is being decapitalized--even if loan repayment is 100 percent on time--through large implicit subsidies to the fortunate current recipients of project loans at the expense of potential future beneficiaries. Other terms of project loans are also generous, including terms up to fifteen years, grace periods up to two years on principal, possible similar grace periods on interest, and highly flexible guarantee requirements. The evaluation recommends that some of these terms be tightened somewhat and, in particular, that interest rates on project loans be increased slightly and made flexible because of the need to compensate for inflation, especially on longer terms loans. However, even these interest rates would continue to be highly subsidized (i.e., they would not cover the cost of securing funds at market rates of interest and on-lending them under the project) and could even be negative in real terms unless interest rate flexibility is tied closely to inflation.

The credit component of the project is administered by BANDESA under a trust fund. Under the terms of the trust, BANDESA is compensated for its work by being allowed to retain the interest income collected on project loans. However, it must initially use its own funds for these loans and is then reimbursed with a lag of approximately six months. This presents problems for BANDESA because its difficult liquidity position results in almost total dependence on trust funds. Although BANDESA had about Q60 million in savings deposits, the evaluation does not recommend using these funds for agricultural loans because of the serious mis-matching of maturities and the risks of lending to small farmers. In any case, BANDESA's liquidity shortfalls are primarily due to loan recovery problems which the evaluation attributes mainly to pressures to lend to the politically powerful, to weak cooperatives and federations and in areas disturbed by violence, rather than to shortcomings in BANDESA's staff and operations. In fact, the evaluation largely praises BANDESA's project lending efforts but suggests that they may be too costly to be covered by even the total interest income from the project. Instead of suggesting increased efficiency in project lending, the evaluation recommends additional commissions for BANDESA along with support for improved infrastructure (e.g., vehicles and computers) and greater attention to deposit mobilization. However, such support is unlikely to accomplish much until BANDESA's high costs and serious loan recovery problems due to lack of independence in selecting borrowers are resolved, while deposit mobilization, though desirable in itself, may be dangerous if the funds mobilized are devoted to covering BANDESA's high costs or lent to questionable borrowers.

During the first phase of the project (including amendments) approximately US$2.4 million in A.I.D. funds was available for irrigation loans, but as of the end of 1987 only about US$0.4 had been disbursed. According to the evaluation, this shortfall is not due to any BANDESA's shortcomings but rather to the failure of DIGESA to develop and submit enough loan applications. It is DIGESA's responsibility to develop the loan applications including preparing feasibility studies, organizing participants into groups and forwarding lists of potential borrowers to BANDESA to check for existing loan delinquency. BANDESA not only facilitates rapid loan approval by dividing large groups into smaller groups if necessary to avoid the delays from having to send loan applications over a certain limit to the central office for approval but also substitutes family members with no negative credit record for applicants with delinquent loans. In reviewing loan applications, moreover, BANDESA has not only stressed quick response but also approved all applications submitted to it as of the date of the evaluation. Although efforts to speed the lending process are commendable, such easy approval of all loan applications may subsequently result in serious loan recovery problems, particularly given the record of similar programs where the responsibility for lending is divided between two agencies. At the time of the evaluation, little information was yet available on loan recovery rates because of generous grace periods, but in one case where information was available (interest payments at BANDESA's Quezaltenango agency) only about 50 percent of payments due had been collected. On the other hand, the evaluation mentions that some loans made by other agencies had been prepaid, reflecting the profitability of small scale irrigation together with some borrowers' fears of debt.

Commercial Land Markets II[21]

The main objectives of the Commercial Land Markets II Project are to improve the welfare of Guatemala's rural poor and, at the same time, to increase overall agricultural output through better land utilization. These objectives are to be achieved through voluntary purchases of agricultural land by the Penny Foundation for resale in small parcels (2.8 hectares) to farmers having little or no land and by providing these beneficiaries with infrastructure, technical assistance and production credit. The project also includes a substantial research component to enhance the performance and evaluation of the project and to identify additional ways in which land transactions can be facilitated and their financing improved. The project is an extension of an earlier pilot project that involved a grant of $1 million to the Penny Foundation in 1984 for a similar program of land purchase

---

[21]USAID/Guatemala, Commercial Land Markets II Project Paper, 1987.

and resale. Because of the apparent success of the pilot project, additional grants of $1 million were made to the Penny Foundation in 1985 and 1986, and these grants have since been included as part of the Commercial Land Markets II Project. The following discussion focuses primarily on the financial aspects of the project, that is, the financing of land purchases and sales and the extension of production credit to beneficiaries, but it is also necessary to discuss various aspects of land markets in Guatemala in order to understand more fully the potential that the Penny Foundation or alternative institutions or mechanisms may have to operate programs of this type on a sustainable basis.

In Guatemala, as elsewhere in Latin America, it is widely believed that large land holdings are often less efficiently used than smaller holdings. If this is in fact the case, then facilitating the transfer of land from large holdings to able farmers without adequate access to land has the potential to increase productivity as well as helping the rural poor. However, past land reform efforts of the Guatemalan Government have engendered strong political resistance, as well as being at most marginally successful, so that efforts under the Commercial Land Markets II Project are focused on voluntary market transfers of land rather than expropriations. The main barriers to such land transactions are said to be information and contracting, on one hand, and finance, on the other. Information about land markets, especially potential offers to sell, is said to be limited by the large gap between rich and poor in rural Guatemala and by past conflicts over land. It is also said to be complex and costly to undertake and administer the subdivision and selling of a large farm in small parcels. Finally, there is said to be no commercial financing available for rural land purchases in Guatemala. Grants to the Penny Foundation have allowed it to overcome these barriers by undertaking the functions of buying large farms, reselling small parcels and financing the purchase of these parcels.

To the extent that the Penny Foundation has been successful in such endeavors, it may be due to its special expertise in these areas (land purchase, parcelization and financing) that is unavailable to other agents, thereby allowing the Penny Foundation to be profitable where others cannot be--or success may be due to access to grants from A.I.D. and other donors. Since expertise in land purchase, parcelization and financing should be common to successful land developers in any country, it is important to know more precisely what the barriers are in rural Guatemala that inhibit carrying out these functions and exactly how the Penny Foundation has been able to overcome these barriers. Prospects can then be more adequately assessed for the continuing viability of the Penny Foundation's program (without permanent dependance on donor grants) and for the transfer of this expertise to other institutions to create similar programs to expand outreach on a sustainable basis. An important aspect of this is to separate the barriers in land purchase and parcelization from those in financing, since the imperfections implied are in different markets and hence in need of different remedies. The research component of the project appropriately focuses not only on a thorough evaluation of the Penny Foundation's activities but also on identifying imperfections in Guatemala's land and financial markets and then supporting institutions and mechanisms that can overcome these barriers and thus provide more adequate markets for rural land transactions and their financing.

The amount of funding for the project is US$14 million, including the US$2 million in A.I.D. grants to the Penny Foundation that occurred in 1985 and 1986, US$8.5 million in new A.I.D. contributions, and US$3.5 million in counterpart contributions from the Penny Foundation (mainly for the payment of principal and interest on notes issued in land purchase transactions and for the continuation of traditional Penny Foundation programs). These funds are divided into six main components: (1) land purchase and resale (US$5.005 million); (2) farm management (US$0.822 million); (3) production credit (US$4.338 million); (4) improvements in administration (US$ 2.018 million); (5) inflation and contingencies (US$1.067 million); and (6) studies (US$0.750 million). This breakdown of project funding shows clearly that land purchase and resale supported by production credit for beneficiaries is the main activity of the project, with subsidiary support for farm management, administration and research studies. The level of project funding was established based on the objective of making the land purchase and resale activity self supporting at a designated level of land purchases--which was later determined to be 1,350 hectares per year.

In an evaluation of the pilot project carried out in May, 1987, the Penny Foundation's procedures for reviewing farms and making purchase offers were criticized, but in addition the requirement of making purchases with at most 50 percent down and the remaining portion to be paid over five years at 9 percent interest may not always be optimal to secure the best price. In particular, the optimal financing offer will depend on the relative liquidity positions of the Penny Foundation and the other party to the transaction and the interest rate that each would have to pay to obtain additional funds. The price to be paid by beneficiaries for their 2.8 hectare parcels is based on the cost of the farm plus surveying and parceling costs. Payments are to be made over a ten year period, with a 10 percent down payment, but the Penny Foundation has been flexible with downpayments in order not to exclude participation by landless individuals. In addition, production credit is provided to beneficiaries in the form of inputs (supplied by the Penny Foundation) and in cash (a subsistence wage for half the work done on the farm by the beneficiary). It is argued that the Penny Foundation must provide production credit not only because no other source of such credit is available, but also because providing short-term credit helps the Penny Foundation's cash flow situation by complementing its long-term loans for land purchase. Loans for both land purchase and production carry the same interest rate, 12 percent at the time the project was designed and expected to rise to 14 percent.

A more appropriate justification for the Penny Foundation's role in lending to beneficiaries is the Foundation's comparative advantage (i.e., economies of scope in information and loan collection arising from its relationships with beneficiaries) that allows it to lend profitably to beneficiaries while other potential lenders cannot. However, interest rates on loans to beneficiaries must be adequate to cover the Penny Foundation's costs--both the cost of funds and loan administration (including losses from repayment problems)--in order to avoid decapitalizing the Foundation while providing unwarranted subsidies to beneficiaries. The interest rates to be charged to beneficiaries are said to be competitive with prevailing market rates, but they are certainly not adequate to cover the Penny

Foundation's cost of funds and loan administration--if they were, the Foundation should be both able and eager to expand its lending activities. Moreover, these interest rates are well below those available even to most large-scale producers and, for this reason as well, represent an unwarranted subsidy to beneficiaries. If, for either social or economic reasons, beneficiaries are to receive subsidies, such subsidies can be more easily justified and more effectively delivered as technical assistance. In addition, the emphasis in the project document that these interest rates are positive in real terms, though currently correct, provides no guarantee that this will be true throughout the lives of the longer-term loans for land, as there appears to be no mechanism in the project by which interest rates on outstanding loans can subsequently be adjusted.

The amount of the grant from A.I.D. to the Penny Foundation, was determined on the basis of the amount that would be required to make the Foundation's land purchase and resale operations sustainable at the designated level of 1,350 hectares each year. In the project discussion, both the cash flow position and the solvency of the Foundation are mentioned as key constraints to be overcome in the selection of this level. However, as the foregoing discussion indicates, interest rates charged to beneficiaries are not adequate at any level of operations to achieve either solvency or a manageable cash flow position for either the Penny Foundation or other institutions that may later be asked to replicate these activities. If the crops to be planted by the beneficiaries in fact generate high rates of return that can cover the full costs to the Foundation of providing credit to beneficiaries, as well as the initial costs of purchasing and dividing the land, then the sustainability of the project can be assured if adequate (market) prices and interest rates are charged (except that a continuing subsidy for technical assistance may be justified). If returns to beneficiaries are not adequate to cover these costs, then the project will never be viable without a perpetual subsidy, and other approaches to assisting these beneficiaries should be sought. Given that rates of return for beneficiaries are adequate, the key elements in the success of the project will, as indicated initially, be the particular expertise that enables the Penny Foundation to buy large farms, resell them in small parcels and provide credit to the beneficiaries, all in efficient ways that can be identified and ultimately replicated by other institutions.

<u>Penny Foundation Proposal To Create a Finance Company</u>[22]

The Penny Foundation has proposed to create a new finance company that would have the basic objective of providing credit to low-income producers who are involved in viable, socially-oriented programs and projects sponsored by the Penny Foundation and similar non-governmental organizations. In providing credit and other financial services to assist beneficiaries in the development of productive activities, highest priority would be given to the projects of the Penny Foundation, especially its Integrated Development Program (i.e., A.I.D.'s land purchase and resale project). Moreover, profits earned by the

---

[22]Penny Foundation, <u>Perfil Sobre la Creacion de una Sociedad Financiera que de Apoyo a las Operacions de la Fundacion Del Centavo y otras ONGs</u>, 1989.

finance company, and not reinvested, would be transferred to the Foundation to cover its general expenses. In addition to making medium and long term loans, the finance company would provide a wide range of financial services to its beneficiaries, including: capital investments, short term loans based on central bank rediscounts; guarantees, advances and discount operations; housing finance; and stock market operations, especially involving instruments issued by the Penny Foundation or by beneficiaries. In order to obtain funds to provide these services, the finance company would have the usual powers of a financial intermediary, including: issuing a wide range of instruments; obtaining foreign and domestic loans; operating trust funds; and accessing central bank rediscounts. In addition, the Penny Foundation argues that the finance company would need a significant donation of capital to provide a high proportion of low-cost funds in order to make loans at interest rates competitive with, or lower than, commercial bank rates and still operate viably.

In spite of the Penny Foundation's intention that the finance company should make loans that can be recovered (e.g., for productive activities in low risk areas) and should operate profitably, the chances that the proposed finance company would in fact be viable are slim. The record of efforts to create similar (i.e., socially oriented, yet profitable) finance companies in other Latin American countries or elsewhere in the developing world is not promising. The few finance companies of this type that have continued to operate have either dropped their social objectives and become purely profit oriented or have continued to depend heavily on grants from governments or donor agencies for their survival. In addition, the finance company proposed by the Penny Foundation has elements of potential conflict that will likely hasten its demise (or its reorientation in unintended directions). An essential element in the successful regulation and supervision of financial intermediaries in any country is strong and effective limits over the provision of loans and other services to related parties, that is, the owners and managers of a financial intermediary and individuals and entities connected to them. Involvement in such lending inevitably leads to serious loan recovery problems as the financial intermediary is neither free to select clients with the greatest likelihood of repaying loans nor to press recalcitrant borrowers strongly to repay. The prospects for the Penny Foundation's proposed finance company are even more bleak because of almost certain conflicts between the Penny Foundation and other nongovernmental organizations over priorities in the provision of loans and other financial services, as well as between the beneficiaries and the institution in charge of each program over who will in fact be responsible for allocating loans and subsequently collecting them.

The Penny Foundation's proposal is also problematic in that it depends on a large initial infusion of capital to attempt to insure the future viability of the finance company and to allow lending to beneficiaries at preferential rates of interest (rates equal or below those charged by commercial banks to their favored clients). To be viable in the long run, the finance company must charge rates of interest that cover the full cost of mobilizing funds from the public at market rates of interest and then lending these funds (including costs from the failure to recover loans on time). If the intended beneficiaries cannot afford to pay such rates of interest, then other mechanisms and programs are needed to increase the profitability of their activities. Providing loans at below market rates of interest will instead encourage rent seeking behavior by unintended recipients and, at best, create a privileged class among the intended beneficiaries as the amount of the subsidy required limits the outreach of the program. Moreover, the Penny Foundation's suggestion of a large initial grant to capitalize the finance company with low cost funds also inverts the normal financial structure of an enterprise for which equity capital is the most costly source of funds because it incurs the greatest risks. The amount of subsidy implicit in a grant of capital to start a finance company should be compared with the potential benefits from allocating equivalent resources to increase the profitability of the activities to be carried out by the beneficiaries (e.g., through technical assistance and training, together with efforts to improve the policy environment).

In addition to the foregoing general analysis, the Penny Foundation's proposal to create a finance company should be viewed specifically in relation to the A.I.D. sponsored land purchase and resale program. The Penny Foundation claims that it needs additional funds to expand this program to an acceptable size and believes that the newly created finance company could provide these funds from its mobilization of resources and its profits. Serious cash flow constraints have indeed emerged in the land purchase and resale program as more loans have been long term with the predominance of permanent crops on the farms being developed and especially as the program has been transformed into a more costly integrated development program with complementary infrastructure and services. In addition, there may be some slippage in loan collection which may not be readily apparent because of the Penny Foundation's flexibility in rescheduling loans based on its view that the initiation of new activities by beneficiaries with limited assets can be highly risky in the first stages. However, as the preceding analysis suggests, the proposed finance company is unlikely ever to have adequate profits to contribute funds to the Penny Foundation and, in order to mobilize funds successfully from the public, will need to pay market rates of interest which will require rates of return on its loans and investments adequate to cover all its costs. A crucial issue is thus whether lending under the land purchase and resale program can be carried out profitably and, if so, whether more profitably by a newly created finance company or by the Penny Foundation directly.

Cash flow problems should not be insurmountable if lending is profitable and if the newly created finance company is creditworthy and hence can borrow at favorable rates of interest to finance its cash shortfall. However, continuing cash flow problems can be a sign of lack of profitability rather than just poor matching of cash flows. One advantage of separating lending activities from the Penny Foundation and assigning them to a newly created finance company is that it may be easier to identify sources of lack of profitability (e.g., the Foundation's land transactions or the provision of infrastructure and complementary services) and to deal with them appropriately. On the other hand, because of economies of scope in information and loan collection arising from the Foundation's relationships with beneficiaries, as noted earlier, it may be preferable to maintain lending activities within the Foundation itself in spite of the potential advantages from specialization in the provision of financial services. Moreover, in spite of the Penny Foundation's apparent lack of enthusiasm for loan collection responsibility, it may be more effective than a finance company that is likely to suffer from the problems involved in lending to related parties also noted above. In any case, for either the Penny Foundation or a finance company, significant term transformation cannot be avoided, and this will require adjustable interest rates on longer term loans and major efforts to enhance liquidity management techniques (as well as techniques to deal with foreign exchange risk if foreign credits are used).

The foregoing discussion of the Commercial Land Markets II Project and the Penny Foundation's proposal to create a finance company suggests the need for further analysis of the options available to finance rural land transactions. While the creation of a new finance company (or the transformation of an existing one) may be helpful to finance rural land transactions and provide related financial services, the Penny Foundation's current proposal has serious shortcomings. Moreover, the in-depth analyses contemplated under Commercial Land Markets II Project, not only of the Penny Foundation's land purchase and resale program but also of alternative mechanisms to finance rural land transactions, are likely to be crucial in reaching a judgement on what is workable. In particular, it will be important to know whether the Penny Foundation's cash flow problems are due in part to losses sustained in certain activities and, if so, which activities (e.g., land transactions or lending) before appropriate lessons can be learned from the Penny Foundation's experience to be transmitted to other non-governmental institutions. In addition, closer analysis of land transactions and their financing can pinpoint the imperfections that need to be addressed and can indicate which mechanisms and institutions are likely to have a comparative advantage in implementing the necessary innovations that can make these activities viable. One potentially significant area for such innovation may be deposit mobilization, not only to contribute to land purchase operations and to the viability of financial institutions but also to provide important deposit and liquidity services for program beneficiaries who traditionally have been thought too poor to save.

Private Enterprise Development[23]

The objective of the Private Enterprise Development Project is to strengthen the role of the private sector, especially small and medium scale enterprises, in the Guatemalan economy and in policy making through a wide range of activities including technical assistance, training and improved access to financial services. The budget for the project during its five year life from mid 1987 through mid 1992 is approximately US$27.5 million, including a grant of US$10 million from A.I.D., a local currency equivalent of US$10.9 in ESF funds from the Guatemalan Government, and a local currency equivalent of US$6.6 in counterpart contributions from Guatemalan private sector institutions. The financial market development component of the project has two elements: a loan guarantee fund to encourage lending to small and medium scale enterprises; and support for financial market research, development, promotion and policy dialogue. The loan guarantee fund is

[23]USAID/Guatemala, Private Enterprise Development: Project Paper, 1987.

supported by the equivalent of US$5.5 million in ESF funds from the Guatemalan Government, the equivalent of US$5.5 million from participating Guatemalan financial institutions, the equivalent of US$50,000 in ESF funds for promotional purposes, and a A.I.D. grant of US$50,000 for technical assistance and staff training at participating banks. The financial market research, development, promotion and policy dialogue component is supported by a grant of US$500,000 from A.I.D. and the equivalent of US$50,000 in ESF funds. Although this project and its financial market components are not oriented specifically toward rural Guatemala, it is nonetheless worthwhile to analyze these components briefly for the lessons that they can provide for rural financial market activities.

Small and medium scale enterprises have been identified as lacking access to credit because of a variety of financial market distortions, especially highly restrictive collateral requirements. A loan guarantee fund has thus been created to substitute for collateral, with initial participation by three banks. This fund guarantees 50 percent of the principal of qualifying loans (e.g., between 2,500 and 100,000 quetzales, with one year terms for working capital and up to five years for capital goods) to eligible small and medium scale enterprises. For the guarantee, a fee of .5 percent is charged on the outstanding principal of the loan, and there are also certain reporting requirements. However, the significant burden for participating banks is that claims can only be submitted after a loan is six months overdue and after collection procedures, including legal action, have been initiated. After approval, 50 percent of the outstanding principal is reimbursed. In spite of A.I.D./Guatemala's efforts to avoid the problems that have plagued similar programs in other countries, use of the loan guarantee fund has been quite limited. Because of the long wait and the high costs of loan recovery efforts, incentives have not been adequate for banks to participate actively in the loan guarantee program. Moreover, collateral requirements may not be the main barrier to lending, as banks are reported to be willing to circumvent these requirements when they are eager to make loans.

The component of the Private Enterprise Development Project devoted to financial market research, development, promotion and policy dialogue appears to be a model of what might be accomplished in pinpointing distortions in rural financial markets and then addressing these distortions through research and policy dialogue along with related technical assistance and training. Moreover, the Guatemalan Financial Chamber, which has been designated as the counterpart institution for this component of the project, appears to have the support of the different private sector financial institutions that is necessary for the diagnosis of financial market distortions and for policy dialogue that could lead to the implementation of appropriate reforms. Nonetheless, it must be remembered that at least some financial market distortions are the result of non-competitive behavior by members of the Guatemalan Financial Chamber, while members of the Chamber may also benefit from certain other distortions that stem from inappropriate financial market policies of the Guatemalan Government. Consequently, this component of the project may have a tendency to lag or to fail to focus on some of the most significant distortions unless A.I.D. at times provides leadership to ensure that research and policy dialogue indeed address some of the more controversial issues in depth. On the other hand, the growing importance of non-regulated financial institutions and the competition they provide to the members of the Guatemalan Financial Chamber may make the members particularly interested in research and policy dialogue leading to policy reforms that enhance the members' ability to compete on equal terms.

CONCLUSIONS

The projects dealing with rural financial markets that have been developed and implemented by A.I.D./Guatemala during the 1980s are quite similar to those dating from the 1970s and before. The main characteristic of almost all of these projects is their predominant focus on the users of financial services (mainly credit) relative to the markets and institutions providing financial services. Moreover, in their focus on those individuals who are to benefit from financial services, these projects almost always involve a variety of other forms of support such as improved marketing services, enhanced technical assistance and sometimes even access to more land or better rural infrastructure. The combination of these other elements with credit for beneficiaries on subsidized terms suggests that certain incentives exist in the design and implementation of projects that leads to this outcome. It may be that difficulties in creating projects that can deal effectively with shortcomings in marketing, technical assistance, rural infrastructure and land distribution make it particularly attractive to introduce credit components that will, because of the subsidies involved, disburse relatively large amounts of money rapidly and thereby give at least an appearance of success in the short run. The failure to focus on research, policy dialogue, technical assistance and training that might enhance the viability of rural financial markets and institutions represents missed opportunities to expand financial services in rural areas on a sustainable basis. In addition, the traditional approach that focuses on targeting attractively priced credit to specific beneficiaries tends to undermine the viability of rural financial markets and institutions, thereby reducing in the long run the quality and quantity of financial services available in rural areas.

In Guatemalan, the projects involving rural financial markets have typically tried to channel credit through credit unions and other types of cooperatives, through BANDESA (the Government's agricultural development bank) and through commercial banks. BANDESA and the cooperatives and credit unions have, for the most part, been undermined by their participation in these projects, while the commercial banks have simply not participated to any significant extent. The response to these problems has been an increasing use of trust fund mechanisms, in the former cases trying to keep A.I.D.'s funds separate within basically insolvent institution, and in the latter case trying to reduce the risks of lending to encourage participation (which has also been attempted through various guarantee mechanisms). The trust fund (or loan guarantee) approach has tended to exacerbate the problems of lenders by increasing their operating costs and reducing incentives for effective loan recovery efforts. Another approach has been to recognize that the targeted clients of these projects are relatively costly and risky to deal with, but instead of addressing this by attempting to reduce costs and risks (as might be done by studying more closely the techniques used by informal lenders), spreads for lenders have been increased. Increased spreads might be appropriate, at least to some extent, if this were done by increasing interest rates to borrowers. However, interest rates to borrowers are said to be at or close to market rates (as has been defined by the maximum interest rate permitted on commercial banks loans) so that spreads have instead been increased by providing cheap funds to lenders. This has not only discouraged deposit mobilization but has also ignored mechanisms for the subsequent adjustment of interest rates when, as now, interest rates have been freed from control.

The main recommendation emerging from this study is that A.I.D. should completely reorient its rural financial markets projects to focus directly on rural financial markets and institutions and not on the beneficiaries of the services provided. This does not mean that there will be no beneficiaries but rather that the services provided will be provided by viable finance markets and institutions so that beneficiaries can benefit on a sustained basis and not merely during the life of a project. Improving rural financial markets and institutions by insisting that they serve a particular set of clients in order to redistribute income or promote certain kinds of economic activity is like insisting that producers should produce only certain types of products that are deemed priority without regard to consumer demands or producer costs and that these products should be sold only to disadvantaged consumers. Financial markets and institutions can only be viable--can only maintain adequate loan recovery and acceptable costs--if they are free to choose their clients. In some of its recent rural finance projects, A.I.D./Guatemala has recognized the importance of providing technical assistance and training to strengthen certain institutions (e.g., BANDESA and rural credit unions and cooperatives) but these efforts must entail not only infusions of resources but also attention to the basic incentive structures that determine institutional viability. In addition, A.I.D./Guatemala projects have recently begun to attempt to strengthen the private sector's involvement in policy dialogue. However, it must be recognized that private sector entities often have an interest in maintaining policies that promote cartels and monopolies in order to enhance their own profits, so that A.I.D./Guatemala may also wish to consider the support of public sector entities through training and technical assistance in its effort to enhance policy dialogue.

A.I.D. SPONSORED RURAL FINANCE PROJECTS IN HONDURAS

by
Thomas M. Dickey

INTRODUCTION

Most of the information presented herein was drawn from files of the Rural Development Office in A.I.D./Honduras and from conversations with A.I.D./Honduras staff during the period February 4-15, 1990. Additional information came from A.I.D./W files, interviews with A.I.D. staff in Washington, and various research publications. Several projects administered by offices other than Rural Development were also analyzed. For example, a Rural Housing Project (a regional effort) was included because it provided loans to small farmers. The Small Business I & II Projects were also included because many small businesses in a predominantly agricultural economy deal with agricultural products or will be run by persons also engaged in agricultural production, and because loanable funds from the Forestry Development Project are passed through the Central Bank discount lines used in the Small Business I and II Projects

HISTORICAL BACKGROUND

Prior to 1950 only a small amount of farm lending was done in Honduras by a couple of commercial banks. In 1950 the Government formed the Banco Nacional de Fomento (BANAFOM) with the aim of providing agricultural loans. Very early the Food and Agricultural Organization (FAO) helped the Bank develop a supervised credit program that encountered substantial problems. In the mid-1960s A.I.D. began two tracks in rural finance, one aimed at small farmers through BANAFOM, and the other at developing funding, and strengthening lending by credit unions and cooperatives. Later, A.I.D. provided additional funding for loans for food production, livestock, grain storage facilities, agricultural cooperatives, and agro-industries.

Since the mid-1960s A.I.D. has funded two dozen projects in Honduras with substantial rural finance components. The total amount of U.S. loans or grants in dollars to these projects amounted to almost $300 million. In addition, substantial local currency that was partially controlled by the U.S. flowed into these programs. Most of the funds provided for lending to groups and individuals were targeted for specific activities in accordance with the particular purposes of the different projects. Many of the projects were designed to promote rural development through the adoption of specific farming practices in the areas of natural resource management, irrigations facilities, livestock production, and other agricultural production activities. The rural cooperatives projects were designed to develop organizations for agricultural production or for the provision of particular services (input supply and marketing, for example) for the small farmer members, but the finance components were seen as necessary but secondary to the production or service objectives of the organizations. The credit union programs were designed to develop alternative financial institutions for the people who had less or no access to banks. The rural credit unions were generally less successful at mobilizing deposits than were the urban credit unions, but they became a means for providing loans to farmers using funds from international donors.

In addition to A.I.D., the Inter-American Development Bank has also provided five loans since 1962 worth about $44 million for rural financing--mainly through BANAFOM--and the World Bank provided a loan worth $45 million for agricultural credit in 1983. In total, foreign donors have lent or granted Honduras about $400 million since the early 1960s for activities related to rural finance. As a reference point, this is about twice as much as the total amount of agricultural loans made by the banking system in Honduras in 1983 (Graham and others, 1985). In addition to the government sources of rural finance, there are also four commercial banks in Honduras that do significant amounts of agricultural lending, partly out of their own funds, but current interest rate (and other) regulations are causing banks to rely heavily on the funds provided by donors through the Central Bank.

Compared to many countries in Latin America, inflation has been moderate in Honduras during the latter part of the 1980s, generally running less than 5 percent per year until 1989, and economic growth has about kept up with population increases.

Several important policies have had major impacts on the performance of rural financial markets in the country. An overvalued exchange rate effectively taxes agricultural exports, interest rate ceilings limit what can be paid on deposits and what can be charged on loans, and hefty reserve requirements are strong disincentives for banks to mobilize deposits.[24] In addition, a substantial part of the funds moving through formal rural financial markets in the country are targeted and this elevates transaction costs in the system. Various policies have also resulted in sharp changes in the amounts of credit available to the private sector. Between 1985 and 1986, for example, private sector lending declined by more than 20 percent, only to double in 1987, and then drop by 60 percent in 1988.

Along with several other A.I.D. missions in Latin America, the Mission in Honduras sponsored a series of studies during the early 1980s that shed considerable light on rural financial markets in the country (Graham and others, 1985). Some of the earliest detailed work on how credit targeting affects transaction costs was done as part of this work. Deposit mobilization, especially in credit unions, also received a good deal of research

[24]In 1988 the Central Bank raised reserve requirements on most deposits to 35 percent. During the latter part of the 1980s interest rate ceilings of 17 percent on commercial bank loans and 24 percent for loans by finance companies were in place. Credit unions are not subject to these reserve requirements.

attention. Based on this research, the Mission encouraged the Honduran Government to liberalize interest rate policies and this was partially done in the early and mid-1980s. The Mission also followed through with deposit mobilization initiatives among credit unions. Some of the policy suggestions that came out of this research, however, fell by the wayside as the Mission began to move large amounts of funds, partly through targeted rural credit programs, to meet U.S. foreign policy objectives in the mid-1980s.

RECENT A.I.D. RURAL FINANCE PROJECTS

In early 1990 AID/Honduras had files on 14 recent or current projects, or combinations of projects, that had major rural finance components. These projects included:

1.	522-0150 Agricultural Sector II,	FY 81-84
2.	522-0157 Rural Technologies,	FY 79-89
3.	522-0168 Natural Resources Management,	FY 80-89
4.	522-0171 Rural Housing,	FY 81-87
5.	522-0176 Small Farmer Coffee,	FY 81-91
6.	522-0205 Small Business I &,	FY 84-89
	522-0241 Small Business II,	FY 88-93
7.	522-0207 Export Development and Services,	FY 84-89
8.	522-0209 Small Farmer Livestock,	FY 83-90
9.	522-0230 [ERP] &,	FY 83-open
	522-0283 [ESF] Land Sales,	FY 83-open
10.	522-0246 Forestry Development,	FY 88-94
11.	522-0251 Small Scale Livestock,	FY 84-87
12.	522-0252 Small Farmer Organization Stren.,	FY 87-93
13.	522-0268 Irrigation Development,	FY 86-93
14.	522-0292 Land Use and Productivity Enhan.,	FY 89-97

PROJECT DESCRIPTIONS

522-0150 Agricultural Sector II

1981-1984
AID Rural Development

BUDGET $US	FX	L/C	Total
AID Grant		4,000 [25]	
AID Loan		21,000	
GOH		?	
TOTALS		25,000+	

Since the project was completed in 1984, many project documents are no longer available in the Mission. This was a multi-purpose project with 18 components. A Cooperative Development component supported the development of four agricultural services cooperatives. Two of these were for grain producers (20 de Mayo and Maya Occidental) and two were export oriented, primarily in fresh vegetables (Fruta del Sol and CREHSUL). At least one of the export crop coops pre-dated the project and joined it half-way through.

The other components included: regionalization of the National Agricultural Bank (BANADESA), scholarships and other training, assistance to planning and information in various agencies, marketing, horticultural research and extension, rural family consumption, and infrastructure. Apparently little or no loan money was provided with project funding. The primary source of funds for the cooperatives appears to have been BANADESA at 8 percent for on-lending at 16 percent. A 1985 evaluation reported serious financial problems in the export crop coops and minor financial problems in the grain coops. The export coops suffered significant losses in marketing in the 1984/85 season. The four cooperatives are among the organizations receiving assistance in 522-0252 Small Farmer Organizational Strengthening Project.

[25] Unless otherwise specified, the amounts given for each project are in thousands of dollars.

522-0157 Rural Technologies

1979-1984-1988
AID Rural Development

BUDGET $US	FX	L/C	Total (Amendment 1)
AID Grant	2,810	10,120	12,930
AID Loan	0	0	0
GOH	227	2,250	2,477
TOTALS	3,037	12,370	15,407

The purpose of the project was to develop and disseminate simple technologies or products designed to improve quality of life. The principal Institutions/Agencies involved included: the Industrial Development Center (CDI), a project Unit (PTR) created in CDI, and the Adaptation Unit (UDA) in the Ministry of Natural Resources. In addition, non-governmental and private voluntary organizations (NGOs/PVOs) were also used in promoting technologies. A new entity was created for the project (PTR) and activities were distributed in a complex set of relationships within existing governmental and private organizations. A later evaluation of the credit activities in the project recommended intensifying links between credit and technology adoption, increasing financial intermediation and reducing PTR lending.

The principal components of the project included development and dissemination of appropriate technologies for small enterprise development; creating a fund to finance new pilot industry and expansion (grants or equity), feasibility studies, or expansion of existing industries; and experimental credit to be used to test a variety of methods for delivery of loans.

The sub-loans made under the project did not directly involve individuals working for PTR. Instead PTR became a lending institution indirectly through NGOs, cooperatives, and banks. Loans to small farmers under the project began in September of 1985. Interest rates on loans made under the project were set at 16 percent to final borrowers, banks received 2 percent spreads and NGOs and cooperatives received 6 percent spreads on PTR funds. The loan recovery risks were born entirely by PTR.

Current Status: (12/88 evaluation)

Total PTR Credit (Cumulative):

Total Disbursements	$3,764.531	Compute outstandings at
Principal Repayments	$ 633.506	$2,939.795. Thus, delinquency
Total Arrears	$ 375.314	as percent of O/S is 12.77 percent.
Percent in Arrears	10.5 percent	

522-0168 Natural Resources Management

1980-1985-1989
AID Rural Development

BUDGET $US	FX	L/C	Total	(1986 Amendment 1)
AID Grant	3,900	0	3,900	
AID Loan	4,252	8,000	12,252	
GOH		5,000	5,000	
TOTALS	8,152	13,654	21,752	

The purposes of this project were to strengthen the Ministry of Natural Resources and to begin action programs in selected watersheds to increase farm income and conserve natural resources. The institutions/agencies involved included a Natural Resource Management Project Office in the Ministry of Natural Resources (PMRN), the Honduran Corporation for Forestry Development (COHDEFOR), and the National Agricultural Development Bank (BANADESA). Principal components included a natural resource and land use policy and planning activity, natural resource data collection and analysis, and watershed management efforts. The Project also included $ 7 million for loans, but apparently only $100 thousand was used for this purpose The Project also included fertilizer grants for smaller farmers as incentives for adoption of specific practices.

The plan for the project included formation of 264 local community organizations through which credit would flow. Each of 15 (sub) Watershed Management Units would include a cooperatives expert and a cooperatives accountant.

Terms on the loans made under the project included: 8 percent, 18 year, 8 grace for agroforestry and fuelwood loans; and 8 percent, 15 year, 5 grace for reforestation; 12 percent, 15 year, 5 grace for range management and pasture. A draft 1982 Trust Fund contract between BANADESA and the Treasury Ministry specified 16 percent interest rates. A 1989 internal evaluation reported rates of 13 percent on loans for crop production and marketing, and 13 percent for livestock loans. Credit supervision was shared (in theory) between project agents and BANADESA. The credit risks were born by the BANADESA/Project Trust Fund. In late 1989, 200 loans had been made under the project averaging $1,500 with default rates of 8 percent (LUPE Project Paper) or 24 percent (1989 internal evaluation).

The Project Paper did not clearly outline the credit/grant operations, but apparently the Project office provided oversight on the loan program and BANADESA is in charge of actual loan disbursements and recoveries. A portion of the Project Paper states subsidized loans "will be needed to maintain the farmer's current cash income and increase it gradually during the second through fifth year." It is later stated in the Project Paper that, "credit on the terms to be provided through the Project is much less expensive than credit which is currently available in the area. This should facilitate risk-taking by small farmers for whom the optimal use of scarce resources is crucial. Credit will provide cash income to poorer families, and offset the opportunity cost of labor investments required."

522-0171 Rural Housing

1981-1984-1987
AID Engineering and ROCAP

BUDGET $US	FX	L/C	Total	(1984 Loan Agreement)
AID Grant			200	
AID Loan			3,300	
GOH			1,530	
TOTALS			5,030	

The purpose of this project is to establish a system for the sustained improvement of housing conditions for the rural poor. The principal institution involved is the National Housing Institute (INVA). Principal project components include a grant to develop INVA's capacity to provide technical and financial assistance to PVOs and loans to finance improvements in rural housing. INVA is to make loans to PVOs at 5 percent which is equal to the passbook savings rate. Loans may be as large as $500 per family with 3 year term and installments not less than 15 percent of annual borrower cash income. Intermediaries included various Caritas entities, credit unions, and the credit union federation (FACACH). All of the credit risk is born by INVA.

Current Status: (Project Completion Report, 3/89)
Received by PVOs = $ 3,300
Total Subloans = $ 5,036
Loans recuperated = $ 3,292
Delinquency varied widely, averaged 22 percent

Observations:

The project completion report concludes that it is unlikely the goal of the INVA Rural Housing Division achieving self-sufficiency will be realized. There is also mention made of the need for the design process to be more sensitive to macro-economic factors, that implementation would be improved if A.I.D. monitored mor closely PVO financial controls, and if PVO accounting procedures met A.I.D. standards.

522-0176 Small Farmer Coffee

1981-1991
AID Rural Development

BUDGET $US	FX	L/C	Total	(1986 Amendment 2)
AID Grant	3,750	100	4,250	
AID Loan	1,500	14,500	16,000	
GOH		29,002	29,002	
TOTALS	5,650	43,602	49,252	

The primary purpose of this project was renovation or replacement of coffee plants in response to coffee rust. The principal institutions involved included the Honduran Institute of Coffee (IHCAFE), private banks, and the National Agricultural Bank (BANADESA). The principal components of the project included extension activities, loans to farmers, and coffee processing (beneficios).

The credit system involved supervised loans provided by IHCAFE agents who help borrowers prepare the applications and then went to the bank with the prospective borrower to help arrange the loan, and handle the first loan disbursement. The loan terms were as follows:

Total Renovation : 7 years, 3 grace, 17 percent
Partial Renovation: 5 years, 2 grace, 17 percent
The banks agreed to provide maintenance loans after 3 years at 13 percent from other Central Bank rediscount lines. The participating banks assume all credit risk.

Interest rate allocation:	Original	1986
Bank - Admin. costs	3.0 percent	6.0 percent
- Reserve Bad Loans	6.5 percent	4.5 percent
IHCAFE - Guarantee fund	2.0 percent	0.0 percent
- Tech. Assistance	3.0 percent	4.0 percent
Central Bank - Admin.	0.5 percent	0.5 percent
- AID loan costs	2.0 percent	2.0 percent
	17 percent	17 percent

The current status of the project is that funds are now available for financing beneficios but it appears the loan saturation level has about been reached for this group. As a result, funds allocated for this purpose will not be completely used. The default rate on these loans is said to be low. Idle project funds in Central Bank are being used to pay for credit life insurance to replace the practice of some banks of charging separately for this.

Observations: The original Project Paper specified separation of extension and credit functions, but early evaluations concluded this not viable in a supervised program. Four additional banks began participating in 1989.

522-0205 Small Business I &
522-0241 Small Business II

1984-1987-1989 Small Business I
1988-1993 Small Business II
AID Private Sector Programs

BUDGET $US	FX	L/C	Total	Small Business I
AID Grant	600		600	(1984 Project Paper)
AID Loan	0		0	
GOH	6,900		6,900	
TOTALS	7,500	0	7,500	

BUDGET $US	FX	L/C	Total	Small Business II
AID Grant	5,359	9,641	15,000	(1988 Project Paper)
AID Loan	0	0	0	
GOH	0	16,025	16,025	
Priv. Sector		8,975	8,975	
TOTALS	5,359	34,641	40,000	

The objectives of these projects were to develop a source of financial and technical assistance for Honduras' small and medium-scale enterprises (SSEs) and to improve the policy and regulatory environment in which SSEs operate. The principal institutions involved in the projects initially included the Financiera Industrial y Agropecuaria (FIA) which was formed by five commercial banks, and the National Association of Industrialists/Small and Medium Scale Enterprise Program (ANDI/PYME). Later, the Advisors for the Development of Honduras (ASEPADEH), the National Development Foundation (FUNADEH) and the Central Bank also began to participate via a fund for small- and medium-sized industries (FONDEI/FOPEME).

ANDI/PYME worked primarily with small entrepreneurs through NGOs, and PVOs. Grants were provided to PVOs for staff. ANDI/PYME received income from interest paid on FIA loans. FIA developed its own technical assistance unit and was geared toward somewhat larger scale enterprises. The differences between ANDI/PYME and FIA clients and interests were resolved in Small Business II by providing ANDI/PYME with grant funds and FIA now receives the spread on its loans to support its technical assistance work.

Grants for loan funds and institutional support were also included for the already functioning ASEPADEH and FUNADEH in Small Business II. The project budget for both organizations includes A.I.D. and private sector sources for the loans funds, including a half million dollars from the Inter-American Development Bank for FUNADEH. Funds for loans and establishment of a guaranty fund (apparently for the Central Bank FOPEME fund) are budgeted by the Honduran government, but are also supported by the private sector.

Credit System:

Small Business I: FIA loans at 17 to 19 percent were discounted through a Central Bank-FONDEI fund at 8 to 10 percent. FONDEI kept 1 or 2 percent and gave ANDI/PYME 7 to 9 percent.

Small Business II: ASEPADEH and FUNADEH will lend from their own funds at 17 percent, of which 12 percent must be used to further capitalize the credit fund (thus leaving 5 percent to support technical assistance). Production enterprises may borrow for 6 months to two years with monthly installments for a maximum of $12.500 ($25.000 for groups). Small merchants dealing with goods produced domestically by SSEs can borrow up to $5.000 ($25.000 for groups).

Credit Risk:

FOPEME - Participating financial institutions bear a minimum of 30 percent of the risk and the Guaranty Fund the remainder.

ASEPADE and FUNADEH - (no information on access to guaranty fund)

Observations:

Loans for Forestry Development (522-0246) were added to FOPEME.

<u>522-0207 Export Development and Services</u>

1984-1989

FIDE portion under AID Private Sector Programs
FEPROEXAAH portion under AID Rural Development

BUDGET $US	FX	L/C	Total	(Original project)
AID Grant	6,900	600	7,500	
AID Loan	14,400	1,600	16,000	
GOH		8,100	8,100	
TOTALS	21,300	10,300	31,600	

The primary purpose of this project was to increase non-traditional exports. The principal institutions involved were the Entrepreneurial Research and Development Foundation (FIDE), the Honduran Federation of Agricultural Producers and Exporters (FEPROEXAAH), the Central Bank, and various private banks.

The principal components include FIDE to provide assistance in marketing and trade promotion, technical assistance in production, finance and administration to producer organizations, develop two Industrial Park Management Companies, and help the Furniture and Wood Products producers, among other tasks. FEPROEXAAH is to assist individual agribusinesses and its member associations by channeling outside assistance, serve as contact point for US importers and investors, help associations provide and monitor training and technical assistance to members, help negotiate freight rates, establish quality standards, provide management assistance and business services, among other tasks. Banks were to provide dollar loans for imports required by exporters (initially working capital only) and local currency loans for investment and working capital

Credit System:

FIDE and FEPROEXAAH to provide certificates of eligibility so that private banks can rediscount loans at the Central Bank . The ten thousand dollar lines of credit carry the following terms: Central Bank rediscount at 8 percent; final interest negotiated, generally 12 to 14 percent, maximum 17 percent; and risks assumed by the commercial banks.

The $24 thousand local currency lines of credit carried the following terms: split into Fund A (private bank risk) & Fund B (Trust Fund risk); Fund B limited to 60 percent of loan; Central Bank rediscount at 8 percent Fund A, final rate less 3 percent spread for private bank on Fund B; terms for both dollar and local currency lines include investment capital to 7 years with 2 grace and working capital up to 2 years. FIDE and FEPROEXAAH receive a 6 percent spread on local currency line and some amount on the dollar line. The credit risks are born by private banks on dollar and fund A loans, and by the Trust Fund on Fund B loans.

Observations:

The interest rate spreads allowed FIDE/FEPROEXAAH expected eventually to make these institutions self-sustaining. The Project Paper and the 1987/1988 evaluations reflect confusion concerning which institution is assuming risk of default and how project design must ensure that the risk-taker be solely responsible for evaluating the risks. They do not recognize that FIDE or FEPROEXAAH Certificates of Eligibility, prepared by their financial analysts and reviewed by their own Credit Committee, may not satisfy the risk-takers in the private banks (nor the Central Bank).

<u>522-0209 Small Farmer Livestock</u>

1983-1990
AID Rural Development

BUDGET $US	FX	L/C	Total
AID Grant	3,000		3,000
AID Loan	675	9,325	10,000
GOH		4,500	4,500
TOTALS	3,675	13,825	17,500

The purpose of this project is to increase the productivity of small farm livestock operations through development of a Livestock Fund to provide animals to joint production companies through producer organizations. The principal institution involved in the project is the FONDO GANADERO (Livestock Fund) a private, for profit corporation created under the project.

The principal components of the project are joint (Fund/Producer) production companies where livestock belong to the FUND and any net earnings are split 40 percent to Fund, 60 percent to producers; technical services and training for producers; complementary infrastructure credits; and input sales and production of mineral salts

Credit System

The FUND offers 'complementary credit' for farm infrastructure and is available to producers, with repayments made through deductions from sales of the borrowers. Interest rates as the same as those charged by the World Bank/ Central Bank agricultural credit project, for terms of 1 to 10 years, possible 2 year grace. Beginning in late 1987 or early 1988, the FUND began a new program of in-kind lending. The FUND provides the livestock at a specific value under a formal loan contract. Repayment terms and interest rates were not specified in the document describing this lending. The Livestock FUND bears all of the credit risk.

Current Status:

At year end 1988 the FUND had approximately $8.5 million in assets and $9 million in liabilities, and was therefore technically bankrupt. The FUND was attempting to restructure its debt and had made significant improvements in reducing its 1988 operating loss.

Observations:

The joint production companies constitute an alternative financial arrangement to direct lending for the purchase of livestock. However, it is not a credit system as such because the FUND becomes an equity partner in each company.

522-0230 [ERP] and -0283 [ESF] Land Sales

1983-open
AID Rural Development

BUDGET $US	FX	L/C	Total	
AID Grant				Dollars provided under ERP
AID Loan				and ESF, made available
GOH		2,000	2,000	for this use by GOH
TOTALS		2,000	2,000	

The purpose of the project is to finance farm purchases by small farmers or cooperatives. The principal institutions involved in the project are private banks, the Central Bank, and the National Agrarian Institute (INA). Principal project components are loans for land purchase with INA providing borrowers certificates that legitimize land as loan collateral.

Credit System:

Private banks can lend up to $ 25 thousand at up to 16 percent interest and up to 10 years. Loans can be rediscounted in the Central Bank at 8 percent. The Central Bank reviews and approves the individual loans, and then collects from the participating banks based on the due dates for each installment. All credit risks are born by the participating banks.

Current Status:

In late 1987 two banks had made 82 loans for a total of one million dollars. In the latter part of 1989 the Fund had $1.5 million available for further lending. In 1985 some funds were reprogrammed for other uses due to lack of demand, were subsequently replaced later in 1985 when one bank promoted the loans, and will probably be once again reprogrammed downward in 1990.

Observations:

INA's certification process was extremely slow. Simple program seems to work reasonably well with only the financial market involved.

522-0246 Forestry Development

1988-1994
AID Rural Development

BUDGET $US	FX	L/C	Total	(1987 Project Paper)
AID Grant	5,886	2,114	8,000	
AID Loan	5,994	6,006	12,000	
GOH		11,688	11,688	
TOTALS	11,880	19,808	31,688	

The purpose of the project is to improve management and sustainable productivity of commercial pine forestry and efficiency of industrial conversion and marketing of wood products. The principal institutions involved are the Honduran Forestry Development Corporation (COHDEFOR); the Central Bank through its National Industrial Development Fund (FONDEI); and the AID-Small Business II project's Fund for Small and Medium Scale Enterprises Private Banks (FOPEME). The principal components of the project are institutional reorientation of COHDEFOR, forest management in selected areas, strengthening the private sector forest industry, and loans to meet needs of private loggers and sawmill operators to replace equipment

Credit System:

Maximum loans of up to $200 thousand per borrower can be made under the program. A guarantee fund (initially funded by A.I.D.) was set up to guarantee up to 70 percent of loan at fee of 3.5 percent (12 months or less) or 6 percent (more than 12 months). The fee can be charged to the final borrower. Eligibility requirements for borrowers are a maximum $750 thousand in non-fixed assets and annual production of 1 million to 10 million board feet of lumber.

Observations:

Original Project Paper planned to channel funds through rediscount line in Central Bank using one private bank selected through an open bidding process. A November, 1989, Project Implementation Letter provided the initial funds and directed that they be operated through FOPEME.

Many project beneficiaries are not already exporters and do not have ready access to dollars. Thus, they don't want dollar loans that must be repaid in dollars. Arrangements are made between the smaller sawmills and the larger (exporting) mills to buy equipment for the smaller mills, using their dollars, in order to get around foreign exchange rate and convertability risks.

522-0251 Small Scale Livestock

1984-1987
AID Rural Development

BUDGET $US	FX	L/C	Total	(source)	
AID Grant					
AID Loan				Dev. Assist.	$875 Grant
GOH				ESF	$594 Grant
TOTALS			1,469		

The objective of this project is to promote small scale livestock (swine) projects among women's groups. The organizations involved in the project are the Overseas Education Fund (OEF) and a commercial bank. The credit system operates through OEF staff who, working with women's groups, prepare a loan request to be presented to the bank. The Bank committed to lend up to twice the amount deposited by OEF as a guarantee fund. The project has been completed.

Observations:

Evidence found of disbursements of $ 814 thousand.

522-0252 Small Farmer Organization Strengthening

(1985) 1987-1993
AID Rural Development

BUDGET $US	FX	L/C	Total	(Project Paper)
AID Grant			7,500	
AID Loan			8,500	
GOH			19,804	
TOTALS			35,804	

The main purpose of this projects is to establish a viable system for channeling productive resources (credit, inputs, technical assistance) to enhance small farmer production and productivity. The principal agencies involved in the projects are: the National Directorate for Cooperative Development (DIFOCOOP); the Financial Development Fund (FDF) which was created as subsidiary of the Honduran Federation of Credit Unions (FACACH); the Union of Cooperatives (UNIOCOOP) which is a Federation of agricultural service coops, some created under A.I.D.'s agricultural sector projects and coffee coops that had belonged to a federation of coffee cooperatives; the Honduran National Campesino Association (ANACH); and the Honduran Federation of Agrarian Reform Cooperatives (FECORAH). The principal components of the projects include technical assistance in organizational development, financial stabilization (through FDF, for restructuring debt or capitalization of participating organizations), and long- and short-term credit.

Credit System:

Direct loans are made by FDF to participating organizations. Reflows of funds then move to Central Bank for local currency lending. FDFs assume all credit risk.

Observations:

Short-term credit used for UNIOCOOP fertilizer sales took advantage of special situation and realized windfall gains that helped reduce the equity deficit. Additional advantage seen in developing institutional capacity for long-term service business appropriate to UNIOCOOP. Loans to credit unions for special reserves increased power of CUs relative to FACACH.

522-0268 Irrigation Development

1986-1993
AID Rural Development

BUDGET $US	FX	L/C	Total	Amend #3	
AID Grant	3,040	4,960	8,000	18,500	Shifted $10,500
AID Loan	2,305	12,195	14,500	4,000	from loan to
GOH	8,730	1,750	10,480	10,480	grant
TOTALS	14,075	18,905	32,980	32,980	

The purpose of this project is to improve farmer productivity and production through the installation of irrigation systems and the provision of related improved agricultural practices. The principal agencies involved in the project are the Hydraulic Resources Directorate (DRH), the Central Bank, and private banks. Principal components in the project include design and construction of irrigation systems; promotion, extension and training; loans for investment and production; and institution strengthening.

Credit System

Short-term production loans are allowed for a maximum of 36 months (normally 12). Irrigation infrastructure loans can be made for 7 to 12 years with a 5 grace. Private banks may lend to farmers at a maximum rate of 17 percent and Central Bank Trust Fund rediscounts at 12 percent.

Interest rate allocation:	Original
Central Bank - Admin.	0.5 percent
- A.I.D loan costs	2.0 percent
- Bad debt Reserve	4.5 percent
- Real value reserve	5.0 percent
total	12.0 percent

Credit risk was divided with participating banks holding 70 percent, and the trust fund being responsible for 30 percent

Current Status:

There are seven banks participating in the program. In late 1989 there were 52 applications submitted to banks for $6.2 million, 60 percent for infrastructure, 40 percent for production loans, 8 loans fully approved for $2 million (86 percent for infrastructure).

Observations:

The credit system was approved in late 1988, 2 years after the project was approved. System was significantly changed from the use of federations, cooperatives, and local farmer organizations as intermediaries to the use of private banks. This change is said to have effectively changed the target population toward a set of farmers that are more creditworthy. It is estimated that about 20 percent of the borrowers may be new to formal financial markets. Private Banks are said to be requiring urban real estate or other more marketable assets as collateral, due in part to the lack of good land titles. Trust Fund allocates 4.5 percent of interest to bad debt reserve even though it guarantees only 30 percent maximum of the loan. BANADESA did not meet conditions to be an intermediary bank. A.I.D. Private Sector Programs helped a lot in redesign of credit system.

522-0292 Land Use and Productivity Enhancement [LUPE]

1989-1997
AID Rural Development
(Successor to 522-0168 Natural Resources Management)

BUDGET $US	FX	L/C	Total	(Project Paper)
AID Grant	13,503	22,497	36,000	
AID Loan	0	0	0	
GOH		14,000	14,000	
TOTALS	13,503	36,497	50,000	

The purpose of the project was to improve hillside agricultural production and productivity on a sustainable basis, including the management and effective protection of Honduran natural resources. The principal institutions involved in the project are the Natural Resources Management Project unit within Ministry of Natural Resources (PMRN) and the National Agricultural Bank (BANADESA).

The main components of the project are improved cropping systems, improved animal systems, post-harvest processing and storage, facilitated marketing, special incentives, and a credit program. For purposes of credit, the project added about one million dollars to an existing sub-loan account in the Natural Resource Management project handled by BANADESA. The target population is categorized as marginal farmers (75 percent of participants), small commercial farmers (21 percent), and small entrepreneurial farmers (4 percent).

Credit System:

Credit arrangements under this project are a continuation of the 522-0168 system: PMRN agents help prepare loan applications and go to BANADESA with farmer for initial disbursements and payments. The terms on the loans are the prevailing market rates based on Central Bank rediscount rates, and loans are made for up to 5 years. BANADESA's role appears to be little more than disbursement/collection agent.

CONCLUDING COMMENTS

Since the mid-1960s A.I.D. has played a major role in Honduras' rural financial markets, much larger than other donors combined. A.I.D.'s funding of rural finance projects has also been large compared to the overall size of formal rural lending in the country. This funding has come through a large number of projects, averaging about one per year over the past two decades. Most of these funds have been provided in conjunction with projects having other purposes than credit and have been specifically targeted for particular uses. These projects provided an easy method for A.I.D. to move relatively large amounts of money into the country and to also satisfy Congressional Mandates.

A.I.D. played a positive role during the early 1980s in sponsoring research and policy dialogue that resulted in some liberalization of interest rates policies in the country. Also, the A.I.D. Mission has given some attention to deposit mobilization through its programs with credit unions and through setting discount rates on A.I.D. funds that were at least as high as rates paid on savings deposits. Even more importantly, A.I.D. has played an important role in discouraging the Government of Honduras from adopting policies that would have adversely affected rural financial markets, particularly through lower interest rates.

While the formal rural financial market in Honduras is much larger now than it was when A.I.D. began working with it in the mid-1960s, it is still far from being an ideal system. It still services a relatively small portion of the country's population, still concentrates its services among the relatively well-to-do, still operates with high transaction costs, still involves too many political intrusions, and still does a poor job of intermediating between surplus and deficit units in the economy. Excessively high reserve requirements on deposits, interest rate controls, distorted exchange rates, large numbers of credit lines, and bad debt cause formal rural financial markets in Honduras to perform less efficiently and equitably than they might.

The Mission has made significant positive changes in its approach to rural finance over the last several decades, including encouraging more liberal interest rate policies. Still, interest rates on loans to final borrowers in many A.I.D. funded projects are not at levels that would allocate funds efficiently among competing uses and allow aggressive deposit mobilization. To its credit, A.I.D. has increasingly avoided setting up special units to handle its loanable funds and has, instead, used existing funding channels--even when this may result in reaching a class of borrowers who were slightly different from those outlined in project documents. A.I.D. has also been creative in encouraging more of the formal financial system to lend for priority purposes through use of loan guaranties that cover a part of the lending risk. While these are improvements, they are limited in their effect by the continued practice of targeting and by the current regulatory environment in which financial institutions operate.

The Small Farmer Organizational Strengthening Project is a significant effort aimed at improving rural financial markets in the country. This project is encouraging institutions to adopt prudent financial management practices before allowing them to participate in the program.

It will be difficult for A.I.D. to substantially improve the performance of this market without altering the way it does business in the country. The overall performance of rural financial markets will not likely improve until A.I.D. places a higher priority on these markets and more directly addresses them, rather than largely using these markets to handle large amounts of money. A.I.D., for example, might consider doing more of its funding in large projects that focus on enhancing overall performance of rural finance markets. This might allow A.I.D. to encourage important policy changes that are necessary for better performance. In general, these large projects might be aimed at lowering transaction costs, expanding the total number of people having access to formal financial services, increasing the amounts of funds mobilized by formal financial markets, reducing loan delinquency, enhancing the economic returns in agriculture, and making rural financial markets more sustainable.

At a more operational level, the Mission might improve the design of credit components in their projects by paying more attention to who assumes the equity risk of lending, and whether or not the spreads on loans are enough to cover the costs and risks of lending. When these issues are correctly evaluated, bureaucratic procedures can be reduced, loan delinquency will decline, and financial institutions will be more enthused about participating in these programs.

APPENDIX B

WORLD BANK AND INTER-AMERICAN DEVELOPMENT BANK ACTIVITIES IN RURAL FINANCE IN LATIN AMERICA

World Bank

World Bank projects are generally larger than those funded by A.I.D. and have also stressed agricultural lending more than have recent A.I.D. projects. Over the period FY82-88 a total of 125 Bank/IDA projects provided $6.6 billion for agricultural credit worldwide which amounted to about one-quarter of all the Bank's lending for agricultural purposes (Yaron). Of these projects, 42 were in Latin America including funds for agricultural credit amounting to $3.3 billion. About half of the $3.3 billion was in 10 specialized agricultural credit project, while the other half involved agricultural credit components in 32 projects. The credit funds involved in these 42 projects amounted to about 40 percent of all World Bank lending for agricultural purposes during this period in the region. In terms of the volume of funds, Mexico and Brazil absorbed a large portion of the Bank's funding for agricultural credit purposes during this period. On average, the Bank provided about $470 million yearly in Latin America to fund agricultural credit activities from 1982 to 1988. Clearly, the Bank's efforts in agricultural credit have been sizeable in Latin America and concentrated.

Despite the relative importance of agricultural credit in its portfolio the Bank has not issued an updated policy statement to guide the formation of its agricultural credit projects. Only after a good deal of internal infighting was the Bank able to publish in 1975 a policy statement on agricultural credit that was a compromise document showing how divided the Bank's staff was on agricultural credit policy. During the 1980s at least three attempts were made in the Bank to write a new agricultural credit policy statement but sharp differences in opinion blocked the issuance of a consensus statement on this topic. At the same time, the World Bank recently published in their 1989 World Development Report an overview of financial markets in developing countries that was largely in tune with the new views on finance. Some of the Bank's staff feel a new policy statement on rural finance will be forthcoming in the next year or so.

Partly because of recent criticisms of concessionary interest rate policies and partly because of inflation pressures during the late 1970s and early 1980s, the World Bank has often negotiated interest rate adjustments with their credit projects. In some cases this has lead to sustained positive real rates of interest on loans made to farmers and to increases in the discount rates applied to funds from the World Bank that pass through Central Banks to ultimate lenders. In other cases adjustments in nominal interest rates negotiated by the World Bank have been overwhelmed by inflation so that negative real rates of interest persisted on agricultural loans funded by the World Bank. The Bank has given almost no attention to deposit mobilization in its rural finance projects.

Recent internal evaluations of the Bank's agricultural credit projects have lead to five recommendations. The first is that the Bank should place more emphasis on developing viable financial intermediaries to handle agricultural loans and move away from targeted lending. The second is that more emphasis should be placed on enhancing loan collection by intermediaries handling agricultural credit funded by the Bank. The third recommendation is to emphasize deposit mobilization. The fourth recommendation is to improve management information systems in financial intermediaries. And the fifth recommendation is to ensure the adequacy of spreads and rediscount margins for lenders handling World Bank funds.

Similar to other donors, the World Bank has difficulty systematically influencing, through negotiations associated with credit projects, important macro and financial market policies. It is also difficult for the Bank to insist on tough credit policy conditions because of the pressure to lend money. Traditionally, donors have channelled large amounts of money relatively easily into agricultural credit projects which have been little more than balance-of-payments support for the receiving countries. Requiring major policy adjustments along the lines suggested by the new views would clearly make it more difficult for donors, particularly the World Bank, to move these large amounts of money easily.

Inter-American Development Bank

Agricultural credit projects have been an important part of IDB's lending activities, a substantial part of which has been with various government-owned agricultural development banks. Since 1961 the Bank has lent nearly $5 billion dollars for agricultural credit activities in virtually every Latin American country through 180 projects (IDB files). From the early 1980s until now the Bank has made major adjustments in its policies on agricultural credit projects. In 1983 the Bank required that interest rates on loans made to farmers under IDB programs should carry positive real rates of interest (IDB, 1983). An IDB policy memorandum in early 1990 expanded the policy guidelines to include virtually all of the new views on rural finance laid out in A.I.D.'s 1988 policy statement on financial markets. The stimulus for policy change resulted from studies carried out by IDB in the early 1980s that reported on transaction costs in four IBD's agricultural lending programs. Out of these efforts came an ex-post evaluation of global agricultural credit operations issued in February 1984 (Document GN-1493). These studies helped build high level support in the Bank for the policy changes that followed.

While the IDB has issued an excellent policy statement on agricultural credit projects, it has encountered difficulties similar to those faced by A.I.D. and the World Bank in translating these new views into projects. IDB has steadily encouraged positive interest rates on loans made to farmers and has increasingly moved closer to making financial sector loans, sometimes in cooperation with World Bank efforts, in attempts to have more influence on critical policies. IDB has also begun to pay much more attention to the strength of financial institutions and to their overall performance. It has been much less effective in helping financial systems to be more aggressive in mobilizing deposits, although deposits mobilization is now an explicit objective of the IDB. Only recently has IDB began to expand its programs in rural finance to include non-farm rural enterprises.

Occasionally, the most important contribution a donor agency can make to policy changes in low income countries is to do nothing--or to not work at cross purposes with innovative activities sponsored by other donors. IDB, for example, was a silent, but very important partner in the highly successful deposit mobilization program sponsored by A.I.D. in the Dominican Republic. Initially, the A.I.D. sponsored program focused on helping the Agricultural Bank to mobilize deposits. This Bank had received a number of loans from IDB over the years to fund various types of agricultural credits and would have preferred to borrow further from IDB rather than to do the much more difficult job of mobilizing deposits. To its credit, IDB supported A.I.D.'s project by not lending to the Agricultural Bank during the critical formative years of the deposit mobilization project. This type of donor coordination is vital when critical policy issues such as deposit mobilization and interest rates are at stake.

BIBLIOGRAPHY

Adams, Dale W. "Agricultural Credit in Latin America: A Critical Review of External Funding Policy." American Journal of Agricultural Economic 53(1971):163-172.

Adams, Dale W. "An Analysis of Rural Financial Markets in Belize." Unpublished study prepared for MUCIA and USAID/Belize. Dept. of Agricultural Economics and Rural Sociology, The Ohio State University, October 4, 1984.

Adams, Dale W, and others. El Credito Supervisado en la Reforma Agraria Colombiana: Un Estudio Evaluativo. Bogota: Centro Interamericano de Reforma Agraria, 1966.

Adams, Dale W, and others. "Is Inexpensive Credit a Bargin for Small Farmers?: The Recent Brazilian Experience." Inter-American Economic Affairs 26(1972):47-58.

Adams, Dale W, and Marie L. Canavesi de Sahonero. "Rotating Savings and Credit Associations in Bolivia," Savings and Development 13(1989):219-236.

Adams, Dale W, Douglas H. Graham, and J. D. Von Pischke. Undermining Rural Development With Cheap Credit. Boulder, Colorado: Westview Press, 1984.

Adams, Dale W, and Alferdo Romero. "Group Lending to the Rural Poor in the Dominican Republic: A Stunted Innovation." Canadian Journal of Agricultural Economics 29 (July 1981): 217-224.

Adams, Dale W, and Joseph L. Tommy. "Financing Small Farms: The Brazilian Experience 1965-69." Agricultural Finance Review 35(1974):36-41.

Agency for International Development (A.I.D.). Bureau for Program and Policy Coordination, "A.I.D. Policy Paper: Financial Market Development." Agency for International Development, Washington, D.C., August, 1988.

Agency for International Development (A.I.D.). Small Farmer Credit in Colombia. A.I.D. Spring Review of Small Farmer Credit, Volume 5. Washington D. C.: Agency for International Development, February, 1973.

Agency for International Development. Small Farmer Credit in Costa Rica. A.I.D. Spring Review of Small Farmer Credit, Volume 2. Washington D.C.: Agency for International Development, February, 1973.

Agency for International Development. Small Farmer Credit in Ecuador. A.I.D Spring Review of Small Farmer Credit, Volume 4. Washington D. C.: Agency for International Development, February, 1973.

Agency for International Development. Small Farmer Credit in Mexico and Central America. A.I.D. Spring Review of Small Farmer Credit, Volume 1. Washington D.C.: Agency for International Development, February, 1973.

Agency for International Development. Small Farmer Credit in South America. A.I.D. Spring Review of Small Farmer Credit, Volume 3. Washington D. C.: Agency for International Development, February, 1973.

Aguilera, Nelson. "Intermeditation Costs and Scale Economies of Financial Institutions: The Chilean Costs." Unpublished paper, Department of Agricultural Economics and Rural Sociology, Ohio State University, 1987.

Araujo, Paulo Fernando Cidade de. "Credito Rural, Subsidios e Prioridade Agricola." Revista ADCE/UNIAPAC/BRAZIL 3(1981).

Battles, Ralph U. "Agricultural Credit Programs in Latin America." Unpublished report on the First meeting of U.S. Agricultural Credit Technicians in Latin America, Guatemala City, Guatemala, August 8-10, 1966.

Bauer, Elizabeth K. (ed.). Proceedings of the International Conference on Agriculture and Cooperative Credit Volumes I and II. Berkeley: University of California Printing Dept., 1952.

Baynes, R. "The Ideal Environment for Effective Agricultural Credit in the Caribbean." In Proceedings of the Twelfth West Indies Agricultural Economics Conference. St. Augustine, Trinidad: University of the West Indies for The Caribbean Agroeconomic Society, 1978: 175-180.

Becker, William S. "Agricultural Credit and Colombia's Economic Development." Unpublished doctoral dissertation, Louisana State University, 1970.

Begashaw, G. "Evaluation of a Supervised Credit Project in Jamaica." Social and Economics Studies 32 (1983): 135-169.

Bourne, C. "Structure and Performance of Jamaican Rural Financial Markets." Social and Economic Studies 32 (1983): 1-21.

Burkett, Paul, and Robert C. Vogel. "Statistical Analysis of Factors Promoting Successful Deposit Mobilization in Peru." Unpublished report, Dept. of Economics, Miami University (Florida), May, 1987.

Camacho, A. R. "The Impact of Regulation on the Structure and Performance of Financial Markets in Low-Income Countries: The Case of Honduras." Unpublished Ph.D dissertation, The Ohio State University, 1988.

Carvalho, M.A. de, and M.T.C. Gimenes. "Recent Changes in Rural Credit Policy." Informacoes Economicas 10(1980): 17-25.

Chaves, Rodrigo A., and Jeffery Poyo. "Financial Reforms in the Credit Union System of Costa Rica." Economics and Sociology Occasional Paper No. 1616, Department Agricultural Economics and Rural Sociology, Ohio State University, September, 1989.

Christen, Robert Peck. "Formal Credit for Informal Borrowers: Lessons from Informal Leaders." Presented at Seminar on Informal Financial Markets in Development at Washington D.C., Department of Agricultural Economics and Rural Sociology, Ohio State University, Paper No. 14, 1989.

Christen, Robert P. "What Microenterprise Credit Programs Can Learn from Moneylenders." Unpublished paper, ACCION International, San Jose, Costa Rica, 1988.

Christen, Robert P., and Robert C. Vogel. "The Importance of Domestic Resource Mobilization in Averting Financial Crises: The Case of Credit Unions in Honduras." Unpublished paper, Department of Agricultural Economics and Rural Sociology, The Ohio State University, April, 1984.

Cuevas, Carlos E., and Douglas H. Graham. "Agricultural Lending Costs In Honduras," in Undermining Rural Development With Cheap Credit, Dale W Adams, Douglas H. Graham, and J. D. Von Pischke, eds. Boulder: Westview Press, 1984

Cuevas, Carlos E., and Jeffery Poyo. "Costos de Intermediacion Financiera en el Banco Agricola de la Republica Dominicana: Los Effectos de la Movilizacion de Depositos." Economics and Sociology Occasional Paper No. 1316, Department of Agricultural Economics and Rural Sociology, Ohio State University, November 1986.

Daines, S. R., and H. Howell. "Guatemala Farm Policy Analysis: The Impact of Small-Farme Credit on Income, Employment, and Food Production." Unpublished study prepared for the Agency for International Development in Guatemala, 1975.

Daines, Samuel R. "Impact Evaluation of the Haiti Small Farmer Improvement Project." Washington D.C.: Practical Concepts for AID, January, 1979.

Davis, Jon S. "A Study of a Pilot Project in Directed Agricultural Production Credit in Ecuador." Unpublished study prepared for the Agency for International Development in Ecuador, November 1, 1969.

Donald, Gordon. Credit for Small Farmers in Developing Countries. Boulder: Westview Press, 1976.

Dorsey, J. and others. "Credit to Small Farmers in the Dominican Republic: Beyond Revolving Loan Funds." Journal of the Inter-American Foundation 6 (1982-1983): 19-26.

Errunz, V.R. and others. "Rural Credit, A Microsynthesis of the Salvadorean Experience." Journal of Development Economics 8 (1981): 227-239.

Feder, E. "Agricultural Credit in Chile." Agrarpolitisch Review 18 (1961): 91-109.

Feder, Ernest. "Feudalism and Agricultural Development: The Role of Controlled Credit in Chile's Agriculture." Journal of Land and Public Utility Economics 36(1960):92-108.

Fernandez y Fernandez, Ramon. Hacia Una Estructura Institutional Ideal Para El Credito Agricola. Chapingo, Mexico: Agricultural Economics Center, Postgraduate College, 1972.

Food and Agriculture Organization (FAO). Report on the seminar for selected countries in the Caribbean area on credit for small farmers, held in Paramoribo, Surinam, March 2-10, 1976, Rome, Italy, 1976.

Gadway, John. "La Situacion Actual de la Cooperativa de Ahorro y Credito Protectora Ltda. 261." Presented at Seminario "El Proceso Inflacionario y su Incidencia en las Cooperativeas de Ahorro y Credit" at Costa Rica, October, 1979.

Gaviria, Fernando. "El Mercado Extrabancario y las Tasas de Intres en Colombia." Revista del Banco de la Republica 51(1978):776-806.

Gersdorff, Ralph von. "Agricultural Credit Problems in Brazil." Inter-American Economic Affairs 15 (1961): 31-57.

Gomez Restrepo, H.S. "Agricultural Development Credit in Colombia." Boletin Centro de Estudios Monetarios Latinoamericanos, Mexico 27 (1981): 292-301.

Gonzalez-Vega, C. "INVEIRON: Innovation in Credit and in Rural Development." Occasional Paper No. 8, Economics and Sector Planning Division, US Agency for International Development, 1978.

Gonzalez-Vega, Claudio. "Costa Rica Rural Financial Policies." Economics and Sociology Occasional Paper No. 1510, Department of Agricultural Economics and Rural Sociology, Ohio State University, September 1988.

Gonzalez-Vega, Claudio. "Credit and Income Distribution in Costa Rica." Economics and Sociology Occasional Paper No. 1535, Department of Agricultural Economics and Rural Sociology, The Ohio State University, September 1988.

Gonzalez-Vega, Claudio. "Los Servicios Financieros Rurales Como Factor de Desarrollo." Economics and Sociology Occasional Paper No. 1635, Department of Agricultural Economics and Rural Sociology, Ohio State University, December 1989.

Gonzalez-Vega, Claudio. "Strengthening Agricultural Banking and Credit Systems in Latin America and the Caribbean." Economic and Sociology Occasional Paper No. 1256, Department of Agricultural Economics and Rural Sociology, Ohio State University, April, 1986.

Gonzalez-Vega, Claudio, and others. "Costa Rica: Fuentes de Credito Para Los Agricultures." Economics and Sociology Occasional Paper No. 1585, Department of Agricultural Economics and Rural Sociology, Ohio State University, August 1989.

Gonzalez-Vega, Claudio, and Arnoldo Camacho. "Financial and Rural Urban Interactions in Honduras." Economics and Sociology Occasional Paper No. 1478, Department of Agricultural Economics and Rural Sociology, Ohio State University, June 1988.

Gonzalez-Vega, Claudio, and Arnoldo Camacho. "Flujos Regionales de Fondos y Prestacion de Servicios Financieros en las Zonas Rurales de Honduras." Economics and Sociology Occasional Paper No. 1577, Department of Agricultural Economics and Rural Sociology, Ohio State University, January 1985.

Gonzalez-Vega, Claudio, and Marco A. Gonzalez-Garita. "Interest and Non-Interest Costs of Borrowing and Farmer Income Distribution in Costa Rica." Economics and Sociology Occasional Paper No. 1424, Department of Agricultural Economics and Rural Sociology, Ohio State University, September, 1988.

Gonzalez-Vega, Claudio, and Ronald Tinnermeier. "INVIERNO: Small Farmer Credit as Administered by an Innovative Rural Development Program in Nicaragua." Unpublished paper, Department of Economics, University of Costa Rica, San Jose, Costa Rica, March, 1978.

Graham, Douglas H. "Costa Rica: The Private Commercial Banks and the Agricultural Sector." Economics and Sociology Occasional Paper No. 1494, Department of Agricultural Economics and Rural Sociology, Ohio State University, September, 1988.

Graham, Douglas, and Compton Bourne. "Agricultural Credit and Rural Progress in Jamaica." Borrowers and Lenders, John Howell, editor, London: Overseas Development Institute, 1980: 59-79.

Graham, Douglas, and others. "An Assessment of Rural Financial Markets in Honduras." Unpublished report prepared for the Agency for International Development in Honduras, Volumes 1 and 2. Department of Agricultural Economics and Rural Sociology, The Ohio State University, December 1981.

Hurtado Z.H. "El Endendamiento Agricola: Situacion Actual Perspectivas a Futuro." Ciencia e Investigacion Agraria 13 (1986):183-191.

Inter-American Development Bank (IDB). "Interest Rates on Subloans in Global Credit Operations." Unpublished memorandum prepared by the Secretary to the Board of Directors of the IDB, March 19, 1983.

Inter-American Development Bank (IDB). "Report on Alternatives for Small Producer Credit." Unpublished memorandum, prepared by the Project Analysis Department of IDB, Washington D. C., January 10, 1990.

Inter-American Development Bank (IDB). "Summary of the Evaluations of Global Agricultural Credit Programs," Unpublished report prepared by the Office of the Controller of IDB, Washington D. C., February, 1984

International Development Services (IDS). "An Agricultural Credit Program for Honduras." Unpublished study prepared for the Banco Nacional de Fomento of Honduras by IDS, Washington D. C., June, 1965.

Klink, A.M., and J.J.A. Nagel. "Agricultural Credit to Small Farmers in Surinam." Surinaamse Landabouri 24 (1976): 55-67.

Kurtz, Donald V., and Margaret Showman. "The Tanda: A Rotating Credit Association in Mexico." Ethnology 17(1978):65-74.

Ladman, J.R., and D.W. Adams. "The Rural Poor and the Recent Performance of Formal Rural Financial Markets in the Dominican Republic." Canandian Journal of Agricultural Economics 26 (1978): 43-50.

Ladman, Jerry R. "Factors Impeding Borrowing: The Case of the Bolivian Agricultural Bank's Small Farmer Credit Program." Savings and Development 7(1983):201-225.

Ladman, Jerry R. "A Model of Credit Applied to the Allocation of Resources in a Case Study of a Sample of Mexican Farmers." Economic Development and Cultural Change 22(1974):279-301.

Ladman, Jerry R. "Some Empirical Evidence in Unorganized Rural Markets." Canadian Journal of Agricultural Economics 19(1971):61-66.

Ladman, Jerry R., for Arthur Young and Company. Bolivian Rural Financial Markets, A.I.D. Bureau for Private Enterprise Financial Markets Project (940-2005), Revised December, 1987, 82pp.

Ladman, Jerry R., et. al., Bolivian Rural Financial Market Assessment, prepared by The Ohio State University for A.I.D./Bolivia (Revised Version), November 1, 1979, 423pp.

Ladman, Jerry R., and Gonzalo J. Afcha. "Préstamos a las agrupaciones: porqué fracasó en Bolivia", Estudio de Política Agropecuaria, Documento Analítico #3B-3, (La Paz, Bolivia: The United States Agency for International Development and the Ministry of Rural Affairs and Agriculture of Bolivia, 1984), pp. 79-106.

Ladman, Jerry R., and Gonzalo J. Afcha. "Un análisis de morosidad en el programa de crédito para pequeños agricultores del Banco Agrícola de Bolivia; el departamento de Cochabamba", Estudio de Política Agropecuaria, Documento Analítico #3B-2 (La Paz, Bolivia: The United States Agency for International Development and the Ministry of Rural Affairs and Agriculture of Bolivia, 1984), pp. 45-75.

Ladman, Jerry R., and Roberto Liz. "Small Farmer Credit Via Agro-Industry: The Case of the Dominican Republic." Economics and Sociology Occasional Paper No. 1468, Department of Agricultural Economics and Rural Sociology, Ohio State University, June 1988.

Ladman, Jerry R., and Justo Espejo Luna, "Informal Rural Credit Markets Under Conditions of Hyperinflation: The Case of Money Lending in the Upper Valley of Cochabamba Bolivia," Proceedings of the 1988 Meetings of the Rock Mountain Council for Latin American Studies, (Las Cruces: Center for Latin American Studies, New Mexico State University), pp. 55-64.

Ladman, Jerry R., and Tomas Miller. "Foreign Assistance for Agriculture and Agroindustrial Credit in Costa Rica an Overview and Key Issues." Economics and Sociology Occasional Paper No. 1497, Department of Agricultural Economics and Rural Sociology, Ohio State University, September 1988.

Ladman, Jerry R., and R.L. Tinnermeier, "Credit Policies and Rural Financial Markets in Bolivia," American Journal of Agricultural Economics 59(1977):962-966.

Ladman, Jerry R., and R.L. Tinnermeier, "The Political Economy of Agricultural Credit in Less-developed Countries: The Case of Bolivia," American Journal of Agricultural Economics 63(1981)

Ladman, Jerry R., and José Isaac Torrico, "Informal Credit Markets in the Valle Alto de Cochabamba Bolivia" Proceedings of the Rocky Mountain council for Latin American Conference 1981, (Lincoln, Nebraska: Bureau of Business and Economic Research, College of Business Administration, University of Nebraska-Lincoln, 1981), pp. 83-89.

Larson, Don and Rene Urquidi. "Competiveness of Informal Financial Markets in Bolivia." Economics and Sociology Occasional Paper No. 1426, Department of Agricultural Economics and Rural Sociology, Ohio State University, December 1987.

Lewars, Gladstone. Small Farm Financing in Guyana 1968-1970. Institute of Social and Economic Research, University of the West Indies, Kingston, Jamaica: The Herald Ltd., 1977.

Miller, Calvin J., and Jerry R. Ladman. "Factors Impeding Credit Use in Small-farm Households in Bolivia." The Journal of Development Studies 19(1983):523-637.

Miller, Fred. "Supervised Credit and Agricultural Development: A Peruvian Example." Inter-American Economic Affairs 23(1979):13-22.

Mogab, J. "The Mexican Experience in Peasant Agricultural Credit." Development and Change 15(1984): 203-221.

Nash, Manning. "Capital Savings and Credit in a Guatemalan and a Mexican Indian Peasant Society." In Capital Savings and Credit in Peasant Societies, edited by Raymond Firth and B. S. Yamey. Chicago: Aldine Publishing Co., 1964, pp. 287-304.

Nehman, G.I., and D.W. Adams. "Measuring Farm Level Credit Use: A Brazilian Example." Agricultural Finance Review 36 (1976): 77-79.

Nehman, Gerald. "Informal Credit in Paraguay." Unpublished paper, Ministry of Agriculture, Paraguay: USAID/Paraguay, January 20, 1978.

Nisbet, Charles T. "Interest Rates and Imperfect Competition in the Informal Credit Market of Rural Chile." Economic Development and Cultural Change 16(1967):73-90.

Nisbet, Charles T. "Moneylending in Rural Areas of Latin America: Some Examples from Colombia." The American Journal of Economics and Sociology 30 (1971): 71-84.

Nisbet, Charles. "The Relationship between Institutional and Informal Credit Markets in Rural Chile." Land Economics 42(1969):162-173.

Nisbet, Charles T. "Supervised Credit Programs for Small Farmers in Chile." Inter-American Economic Affairs 21(1967):37-54.

Norvell, Douglass G., and James S. Wehrly. "A Rotating Credit Association in the Dominican Republic." Caribbean Studies 9 (1969): 45-52.

Nyanin, O.O. "Lending Costs, Institutional Viability, and Agricultural Credit Strategies in Jamaica." Social and Economics Studies 32 (1983): 103-133.

Parks, L. L., and R. L. Tinnermeier. "Agricultural Credit for Farmer Groups: Experiments in Honduras." Agricultural Administration 8(1981):227-239.

Pessah, R. "Channeling Credit to the Countryside." Food Policy in Mexico. The Search for Self-Sufficiency. Ithaca, New York, Cornell University Press, 1987, pp. 92-110.

Pomeruda, C. "Research into Agricultural Credit and Implications for Its Expansion In Latin America." Desarrollo Rural en las Americanas 13 (1981): 161-171.

Poyo, Jeffery. "Las Bases De Una Exitosa Mobilizacion De Ahorros." Unpublished paper. Department of Economics and Metropolitan Studies Program, Syracuse University, 1981.

Poyo, Jeffery. "Study of Rural Credit: The Credit Union Movement in Honduras." Unpublished study prepared for the Agency for International Development in Honduras, Department of Agricultural Economics and Rural Sociology, The Ohio State University, October, 1982.

Ribeiro, Jose Paulo, and Clifton R. Wharton Jr. "The ACAR Program in Minas Gerais, Brazil." In Subsistence Agriculture & Economic Development, edited by Clifton R. Wharton Jr., Chicago: Aldine Publishing Co., 1969, pp. 424-438.

Rice, E. B. History of A.I.D. Programs In Agricultural Credit, 1950-1972. A.I.D. Spring Review of Small Farmer Credit, volume 8. Washington D.C.: Agency for International Development, 1973.

Rice, E. G. Extension in the Andeas. A.I.D. evaluation paper No. 3A. Washington D. C.: Agency for International Development, April, 1971.

Salmon, Jeff P. "New Approaches in Commercial Lending to Informal Sector Enterprises in Latin America." Unpublished paper, Inter-American Development Bank, Washington, D.C., January 1986.

Scobie, Grant M., and David L. Franklin. "The Impact of Supervised Credit Programs on Technology Change in Developing Agriculture." The Australian Journal of Agricultural Economics 21(1977):1-12.

Solem, R., and others. "US Aid to Paraguay: Assistance to CREDICOOP's Agricultural Credit Union System." AID Project Impact Evaluation Report, US Agency for International Development 56(1985).

Soles, Roger E. "Successful Rural Credit Projects in Latin America." Development Digest 16 (1978): 15-24.

Stickley, Thomas. "Building Institutional Capacity in the Bureau de Credit Agricole in Haiti." Unpublished study, Development Alternatives, Inc., Washington, D.C., June, 1985.

Stitzlein, John. "The Characteristics and Significance of the Non-Institutional Credit Market in Rural Ecuador." Agricultural Finance Center, AFC Research Publication 117, Department of Agricultural Economics and Rural Sociology, Ohio State University, December, 1967.

Stockhausen, J. von. "Supervised Credit in Developing Countries with Particular Reference to South America." Agarwirtschaft 22 (1973): 309-316.

Stringer, R. S. "An Analysis of Credit Uses in the Honduran Agrarian Reform Sector." Unpublished Ph.D. dissertation, University of Wisconsin, 1984.

Tendler, Judith. Agricultural Credit in Brazil. AID Contract AID/csd-2501. Prepared for the Bureau for Latin America, AID Washington, Department of Agricultural Economics and Rural Sociology, October 1969.

Tendler, Judith. "Ventures in the Informal Sector, and How They Worked Out in Brazil." A.I.D. Evaluation Special Study No. 12, Bureau for Food and Peace and Voluntary Assistance, Agency for International Development, Washington, D.C., March, 1983.

Rochac, Alfonso. El Credito Agricola. Madrid: Salvat Editores, 1956.

Thirsk, W.R. "Rural Credit and Income Distribution in Colombia." Journal of Economic Studies 2 (1975): 10-33.

Tinnermeier, Ronald L. Agricultural Credit Demand--A Discussion. Paper presented at the Seminar on Agricultural Credit for Small Farmers, Santo Domingo, Dominican Republic, December 12-13, 1978.

Tinnermeier, Ronald. "An Evaluation of Selected Supervised Agricultural Credit Programs in Peru." Unpublished report submitted to the Peru Mission of the Agency for International Development, June, 1968.

U.S. General Accounting Office. "Credit Programs for Small Farmers in Latin America Can Be Improved." Report to the U.S. Congress, Comptroller General of the United States, Washington, D.C., 1977.

United Nations. Memoria Del Seminario CentroAmericano De Credito Agricola, three volumes, Mexico City: United Nations, 1954.

Velez-Ibanez, Carlos G. Bonds of Mutual Trust: The Cultural Systems of Rotating Credit Associations Among Urban Mexicans and Chicanos. New Brunswick, New Jersey: Rutgers University Press, 1983.

Vogel, R.C., and D.W. Larson. "Limitation of Agricultural Credit Planning: The Case of Colombia." Economics and Sociology Occasional Paper No. 728, Department of Agricultural Economics and Rural Sociology, Ohio State University, 1980.

Vogel, Robert C. "Final Report on the Peru Savings Mobilization Campaign Project, July 1979 through December 1981." Department of Agricultural Economics and Rural Sociology, Ohio State University, February, 1982.

Vogel, Robert C. "Guatemala: Informal Finance." Unpublished paper prepared for the World Bank in Washington D. C., June, 1988.

Vogel, Robert C. "Rural Financial Market Performance: Implications of Low Delinquency Rates." American Journal of Agricultural Economics 63 (1981): 58-65.

Vogel, Robert C., and Claudio Gonzalez-Vega. "Agricultural Credit in Costa Rica." Unpublished report prepared for the Agency for International Development in Costa Rica, July, 1969.

Von Gersdoff, Ralph. "Agricultural Credit Problems in Brazil." Indian Journal of Economics 41 (1960): 151-171.

Von Pischke, J. D., and Dale W Adams, "Fungibility and the Design and Evaluation of Agricultural Credit Projects." American Journal of Agricultural Economics 62(1980):719-726.

Von Pischke, J. D., Dale W Adams, and Gordon Donald. Rural Financial Markets in Developing Countries, Baltimore: Johns Hopkins University Press, 1983.

Wharton Jr., Clifton R. "CBR in Venezuela." Inter-American Economic Affairs 4(1950):3-15.

World Bank. Agricultural Credit Sector Policy Paper. Washington D. C.: World Bank, 1975.

World Bank. "Financial Sector Study in Bolivia." Unpublished analytic report prepared by the Projects Department of the Latin America and the Caribbean Regional Office of the World Bank, Washington D. C., May 1987.

World Bank. World Development Report, 1989. Washington D.C.: Oxford University Press, 1989.

Yaron, Jacob. "Bank Lending for Agricultural Credit FY82-88." Unpublished memorandum prepared by the Agricultural Policies Division of the World Bank, Washington D.C., December 1988.

Zinzer, James and others. Mercado Financiero No Regulado. Santo Domingo, Domincan Republic: Centro de Estudios Monetarios y Bancarios, 1986.